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Office of the Company Secretary

The Manager

Company Announcements Office
Australian Stock Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

Telephone 03 9634 6400
Facsimile 03 9632 3215

ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript of presentations at the Telstra Investor Day – Morning Session

In accordance with the listing rules, I attach a copy of the transcript of the morning presentations at Telstra's Investor Day 1 November 2007, for release to the market.

Regards

A handwritten signature in black ink, appearing to read 'C. Elliott'.

Claire Elliott
Acting Company Secretary

TELSTRA INVESTOR DAY

At the Westin Hotel Grand Ballroom

Thursday, 1 November 2007

BEN SPINCER: Good morning, everyone, those of you here in Sydney, those on the webcast and those listening via conferlink. My name is Ben Spincer and I am the director of investor relations here at Telstra. On behalf of the company, I would like to welcome you to this 2007 Telstra investor day.

Please read and digest this disclaimer on the screen behind me. While you're doing that, I have a couple of quick housekeeping points to make. Tea and coffee will be available throughout the day in the exhibition area over there. In addition, we will be serving a lunch this year, so we'll have a short break in the middle of the day. There will be a number of opportunities through the day for analysts and investors to ask questions from the mics on the floor and Andrew Maiden will be hosting a media Q and A at the end of the day.

Finally, for those of you who have forgotten to bring an umbrella, I hope that our small gift will enable the show to go on come rain or shine. Without further ado, I will hand over to our chief executive officer, Mr Sol Trujillo. Thank you.

SOL TRUJILLO: All right, Ben. Thank you. I didn't know about these umbrellas. How come you didn't tell me, Ben? Were you expecting something to happen here that might be somewhat reminding of last year? Well, as you know, last year we had a chance to be in a different kind of setting and we had a different kind of experience in terms of the beginning of our meeting, but as you saw, we persevered. You saw that we completed the mission at that point in time, so what I'd like to do today is welcome all of you to our Telstra investor day.

I want to be clear about the day because we started this tradition, if you will, two years ago in November of .1/11/07

'05 where we had essentially the laying out of our strategic plan and last year we continued it with our investor day and the idea is that when we announce results, we basically don't have enough time to get into a lot of the detailed understanding of how we are essentially moving the business.

Today is that chance for us to get into detail, to make ourselves even more transparent to, basically, our investor community. Today is about those who have risked their capital. Today is about those who have invested in this company and are interested in seeing how we are travelling and what we are going to be doing in terms of creating growth and exceeding expectations.

Today is about briefing on our strategy and again, we'll be giving updates for what we do. Let me be clear, today we're going to be providing guidance, updated guidance. We said that. Those of you who met with us during our roadshow after our results announcement, we said we would be updating guidance. We said we would provide, essentially, a road map in terms of how our transformation is going to continue as we go forward and in particular, emphasising the IT portion of our transformation because there seemed to be a lot of questions and I think a lot of misunderstandings in terms of where we are in terms of the transformation and like everything else, we're continuing to be on or ahead of plan with what we do.

I will talk about that, but more importantly, Greg, Tom Lamming and the team will talk about that in some detail. Let me just take a quick step backward and talk about our transformation strategy. I want to be clear. It is a multi-faceted plan. It is not just about building a network or networks, it is not just about building systems, it is not just about launching products, it is not about any single element of change. Our transformation is being executed on what I like to think of and what we had mapped out back in November of 2005 was a whole series of parallel paths that were going to be launched where everything comes together basically in that 2009/2010 period as we fundamentally change this company that we call Telstra.

I think some of you acknowledged back then that that's a pretty bold plan. There is a lot of scepticism. We pulled out quotes from probably many people in this room in .1/11/07

terms of their opinions of whether it was going to be do-able or not, how high a risk it was and what their consensus views were in terms of the numbers, but I won't spend time talking about that. Let me just say that everybody was basically wrong in terms of their views, but the most important thing is that we're here today to talk about results and that's the focus that we have in terms of this business as we go forward.

As we think about the business, I just want to continue to emphasise that this is about a comprehensive transition that we're making within the business. We're not done, we have a lot more to do, but we're well on our way as we think about it.

It is about the back-end of the business, it is about the front-end of the business, it is about culture and it is about the customer experience ultimately. When I made the decision that said we're going to create one factory, it was so that we could deliver a consistent experience for our customers. When I made the decision that we were going to implement a whole market-based management system, again, it was about the customer and that's what we're doing.

For those of you that last night or this morning had a chance to see the retail store that we've launched and basically our retail strategy, you'll see again it is all about the customer and yes, it is about providing technology to our customers and it is about all the benefits that technology and other capabilities can bring, but it is about growing our business and differentiating ourselves from our competitors. It is about rewarding our shareholders who have invested their own capital in this company as we work to create value over the life of this transformation plan.

Let me be clear - at the end of the day, it is about our cash flow that we're going to generate and the returns on the invested capital. Looking back to 2005, I just want to remind everybody that when we were reporting at that point when I first came to this business, we had retail expense growth that was double digits. We had wholesale expense growth that was double digits. In the case of retail revenue growth it was essentially flat and in the case of wholesale revenue growth it was double digits, but our expense was higher than our revenue growth. We all
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knew, or at least some of us knew, what was about to happen in terms of this marketplace changing, the wholesale dynamics of pricing going down and looking like what has happened in the rest of the world. Therefore, an emphasis on retail became imperative in terms of how we think about our business and again, you'll see some of that going forward as we travel through the day.

Back then the consensus on our revenues after our strategy day was \$22.5 billion. EBIT consensus was about \$5.5 billion. When we reported in August of this year, we exceeded those expectations by \$1 billion at the top line and \$300 million at the EBIT line. We expect to continue to exceed market pessimism in the coming months. It is clear we're not done yet, but we are ahead of plan, basically, on all fronts. We are on the march to becoming better, faster and first as we think about competing in the marketplace.

The growth and strength in revenues, market shares and ARPU's are across the board, but especially driven by value-added capabilities into the marketplace. Back then we talked about changing the game from being a price-based competitor to a value-based competitor. That is how you generate margins. That is how you generate profits and that is how you avoid the decline that you see many other businesses going into.

It is also about winning on the key platforms of growth. It is very important to remind ourselves of the declarations that we made. We said we were going to win at Broadband, we said we were going to win on 3G and we said we were going to tackle the PSTN issue, as we had back then accelerating declines in terms of PSTN. We've been attacking those and we'll talk about those today.

In the case of the business itself, inside the business we had to change a culture. We had to change a culture that moved from a company that spent all their time thinking about regulatory and the regulatory environment will define our growth and it will define our success and it will define what we do and don't do and I would say that's good 1990s thinking for those who believe that, but since then we have proven that even in spite of the fact that we may have the worst regulatory climate in the world, we're outperforming basically our peers and we'll share

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some data about that a little bit later.

We have moved from being a regulatory-centric kind of business to one that is very customer-centric in everything we do and again, another example that we launched last night as part of our transformation was our whole new retail strategy to be truly customer-centric.

As we think about strategy, as we think about the business, any one of you who wants to describe it, it is being about value-based, competing on a value-based model rather than a price-based model. Our ultimate differentiator is about becoming an integrated company. It is about creating a different experience for our customers, delivering integrated services through one click, one button, one step, one command, easy to use as part of the definition of how you use our services. We will talk some more about that, but that is the essence of our strategy. Our strategy is integrated. It is using market-based management and it is leveraging all of our assets because we are focused and maybe most importantly, because it is working and we now have data in the marketplace that says that.

Let me go ahead and move to the punchline of today. Today we are announcing that our fiscal '08 EBIT guidance is being increased to 4 to 6 per cent for our underlying EBIT and 5 to 7 per cent post the Foxtel distribution. We are also raising our 2010 objectives for revenue and EBIT growth from 2 to 2.5 per cent to 2.5 to 3 per cent. John Stanhope will talk some more about that in detail, but the punchline here is that the transformation is working, the numbers now are going up and you're going to see why as we cover the day.

Today you're going to hear Greg Winn and John Stanhope explain that we're well on our path to hitting our 2010 targets in terms of capex to sales and that is because we have invested in our networks, we have invested in our IT and our processes and our sales capabilities and our people and because essentially at the end of 2010, we're going to be a new company with new infrastructure and new capabilities. This whole notion of the old paradigm of what does capex to sales look like, it does change and it does change uniquely for Telstra because we have been bold in taking some of the steps that we have.

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We are going to give you an update in terms of our IT transformation, our wireless and wireline activities and then Bill Stewart is going to lead our retail team in reporting on our successes in using market-based management in our retail transformation. We will show you how product differentiation is driving competitive advantage as we evolve into this integrated media coms company which leverages our mobile, our Bigpond, our Sensis and our Foxtel assets. You are going to be able to hear from Kim Williams talking about Foxtel, but not just Foxtel itself, but how Foxtel is going to be integrating with Telstra to create a great experience here in Australia for all the people that want to take advantage in this whole entertainment space.

We are also going to be joined today by the CEO of Qualcomm, Dr Paul Jacobs, who is going to provide a perspective on the evolution of the wireless industry and when we talk about moving from 1.8 to 3.6Mbps or 7.2 and having data cards and handsets and all those things, we need those chip sets and we need a company in the industry that's going to be leading the way and helping drive some of this change that is going to be enabling a fundamental change in terms of behaviour for any business or any of us in terms of our personal lives. You are going to get a chance to hear from Dr Jacobs in terms of what they're doing at Qualcomm to help us, to help Telstra, but help the industry around the world move forward.

Today is another day that we raise the bar to compete, another day of extending our competitive advantage, because we told you in November of 2005 that one of our objectives ultimately was to generate \$6 billion to \$7 billion of free cash by the end of 2010. If you'd look back to what we announced at the end of this past fiscal year, we ended the year at \$2.9 billion. As investors, obviously doubling of free cash flow between the end of this past fiscal year and the end of 2010 is a pretty big step, but it's pretty significant and we'll show you today how we are confident about our ability to do that.

We told you in August of 2007 that we were winning in the marketplace as we exceeded market expectations for the third consecutive period and today we're going to tell you how, through our operational excellence, our performance

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across a range of benchmarks is not just beating our domestic competitors, but as we have now looked across the world, we're looking at our performance against everybody else.

Let me take you through some of the data. In terms of mobiles, at the fiscal year 2007 results we reported continued strong growth in the non-SMS mobile data as customers take advantage of the unique capabilities of our Next G network and let me tell you for those of you who travel around the world, our network is unique and it is enabled like no others anywhere else. Today I can tell you that in Q1 08 we grew our SMS data revenues by more than 90 per cent. Let's put that in context. By comparison, Vodafone Europe reported 32 per cent growth in the first half of 2007 and one of the industry leaders in Europe that everybody likes talking about, Telefonica Moviles, they grew 36 per cent in the same period. There is a dramatic difference in terms of our performing based on Next G based on the marketing of it and based on the value propositions that we have.

Our mobile data as a percentage of ARPU is world leading as well, as is our mobile services revenue growth. In Q1 we achieved what we believe to be a world's first for a 3GSM mobile operator with non-SMS data revenue greater than SMS for the first time. The paradigms, the trends, everything is changing, which is part of the belief in the strategy that we have about bringing high speed, which means real-time enabled any media capabilities for our customers.

Again, to put it in context, Telefonica Moviles is 44 per cent, Vodafone UK, 29 per cent, Vodafone Germany, 42 per cent and Vodafone Italy, 26 per cent. You can see how we're now separating ourselves as well in terms of the growth fronts. At the end of Q1, our Next G network subscriber base stood at more than 1,500,000 subscribers. Our total 3G subscriber base at the end of September has reached more than 2.5 million, 27 per cent of our subscriber base at 5 percentage points in the quarter and actually, if we do a like-for-like, the way most companies are benchmarking themselves and reporting, our numbers are actually about 30 per cent on a like-for-like with everybody around the world.

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We are leading the world in terms of the percentage of our customers on 3G and I really do believe that by 2010 we should be in the 50 to 70 per cent of our mobile base being on 3G. That is a dramatic change because for Telstra 3G versus 2G means another \$20 of ARPU. It is not just a number, but it is reflective of usage that our customers have. As we think about that \$20 ARPU uplift, we have moved beyond the earlier doctor stage. Further support comes from our cohort analysis showing that when a customer moves to 3G, they're showing significant uplift in voice calls, use of SMS, interactive data services, it is world-class and Holly Kramer will discuss this acceleration in more detail later, but you're going to find another set of interesting data when you see Greg's presentation and Mike's and some of the other folks.

Even in Australia, when we look at non-metro customers and the acceleration of their use once they become a Next G customer, is a very interesting phenomenon because they're getting services that they never had available before.

Let me move to Broadband, in terms of fixed line. When we look at Broadband, the second half of fiscal '07, we talk about revenue growth of 80 per cent which is more than four times the growth rate of the European incumbents. You have read about what the Europeans are celebrating. In Q1 08 we're still adding customers at a rate of at least 3 to 1 over our nearest competitor and growing both market share and ARPU. In wireless Broadband we're adding more than 20,000 mobile data cards a month, with the total now just short of 400,000. We are aware of the increasing need for speed and have already upgraded our data cards to speeds of 7.2Mbps downlink and 1.9Mbps uplink, which is creating another upsurge in terms of demand from our business customers and many segment of our consumer base saying, "Wow, this is really what I've been looking for." We remain on track to achieve peak network speeds of up to 40Mbps in 2009, up from the 14.4 that we're at today.

Through Telstra's Next G network, Australia continues to have the world's largest and fastest nationwide Broadband wireless network. Let me talk about PSTN. Our PSTN retail revenues in the second half of fiscal '07, we were at a run rate of a loss of a minus 2.5 per cent. As we benchmarked again around the world, that was best in class. Let me just give you some of the data. In the case .1/11/07

of Deutsche Telecom, their PSTN revenue loss in that same period was negative 9.4. Telecom Italia's was negative 8.1. BT was minus 5.3. Bell Canada was minus 5.7. As I understand it, the US operators were in the minus 8 range.

We are also world leading here because we're not losing PSTN lines. Q1 08 saw this positive trend continue. I say that again, continue with retail PSTN and SIOs increasing 33,000 in this quarter. This compares with AT&T's and Verizon's PSTN loss which is about that 8 per cent. We have the best delivered results as we have benchmarked around the world. This has everything to do with the change in our marketing focus that you're going to hear about in a very focused way from Bill Stewart, David Moffatt, Deena Shiff, David Thodey and Geoff Booth a little bit later.

Shortly, Greg Winn and his team will provide detail on progress across the network and IT portion of our transformation program, including the delivery of our first milestone last weekend of what you have heard us refer to as release 1, which is now in production, two months ahead of schedule.

Although there are other milestones to be hit as we continue through the IT portion of our transformation, let me stand here today and tell you that this is the biggest one that we had to hit. Greg, Tom Lamming and some of the folks will talk about that.

We are already delivering significant improvements in productivity, and our field workforce productivity is up 20 per cent. You will hear from Mick Rocca, who will talk about that.

We will talk some about cost savings in procurement and in our workforce where we continue to streamline our business and remain on target to reduce our workforce by 12,000 FTEs by 2010. So hopefully you're getting the picture that the numbers do add up and they will add up, and John Stanhope will cover that a little bit later.

Our retail transformation is driving sustainable profitable growth using our market-based management system as the core of our engagement with customers in a truly segmented needs-based fashion.

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As part of our transformation, last night we did unveil our first interactive flagship store, our T[Life] here in Sydney. At T[Life], as those of you who have had a chance to see it would know - and those of you who haven't, I would invite you to go across the street and see it - you can touch and experience the richest content and the latest devices of integrated solutions and tailored services all supported by some of the new back-end systems that we have just turned up.

We are giving our customers a hands-on experience of what is possible and access to consultants, who show them how to use, do and set up - no more conversations just limited to handsets and price plans. But it is really about what you can do in your life, whether it be your business life, your personal life or your on-the-go hybrid life, with the services that are now available to you from Telstra. I think that you will see that it can provide one of the most compelling customer experiences found anywhere - not just in Australia but anywhere in the world.

Tonight, we are going to launch our Telstra Experience Centre for business and enterprise customers, which includes a state-of-the-art facility showcasing Telstra's world-class technology, our Next IP and Next G products and integrated solutions for the home, at work and on the go. And, again, part of this is really focused on our marriage, our relationship, with our customers where we can collaborate, where we can develop and where we can innovate all the time going forward.

We will create an environment where, when we think about applications, whether it be health care applications, education applications, transportation applications, financial services applications or whatever it might be, we can sit and work with the customers on a real-time basis.

We will continue to offer mobile customers devices which appeal to specific segments. Today, we will launch six new handsets, growing our Next G range to almost 30. Again, Holly Kramer will talk about this a little bit later, but I want to highlight a few of these.

Number one is our country phone, which is basically a new super-receptive mobile phone, which will enable rural

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customers to take even more advantage of our Next G network coverage. This is the device, and I have to tell you I always try to listen not just to our product people but also to the people that we have out in the field, people who work for Geoff Booth, who are out in Woop Woop, A, B and C around the country.

Last night, Geoff shared with me an email that he received from one of the guys who had travelled several thousand kilometres over the last couple of weeks, and Geoff will talk about that. He is so excited about the coverage, where CDMA coverage didn't exist in many other places, given the strength of this device.

We also have found that many people out of the non-metro areas, and actually customers inside the metros in certain trades and professions, wanted more ruggedised kinds of devices, devices that you can drop, devices that will work almost everywhere, and we have basically another ruggedised device that we are introducing as well.

Then on the consumer side - but it's not even just consumer; we will be introducing now, this week, a wide-screen device - a wide-screen device that not only enables you to do your classic calling but essentially enables you to watch true mobile TV. Holly will talk about that. I won't get into all the features, because it is exciting to see what is now possible here in Australia, unique to an experience that we are delivering here at Telstra - getting access to the Foxtel IQ box, being able to do all kinds of things, which is part of our strategy and part of our story about our customers.

Now, this becomes important for everybody to understand, and we're taking you through it because this is part of the next wave of growth for Telstra and it is part of, really, to be quite frank, the next wave of growth for our industry. But we will be the pioneers, we will be the innovators and will be the leaders in terms of these business experiences, customer experiences, in terms of growing capabilities as we go forward.

Let me touch very quickly on CDMA. We continue to be confident that we have the network coverage. Obviously, we've certified. We know that technically our Next G coverage goes way beyond what CDMA is capable of. And we

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now know that we have all the handsets and the other peripheral kinds of capabilities to help us achieve our aims in migrating our CDMA customers to the Next G platform.

We will close the platform on 28 January and we will continue to evolve our relationships with our customers, because, again, the adoption and the use, as you will see today, is pretty exciting for not only those who live in the cities but also those who might live all the way out in the bush.

Let me talk about another capability that we will be introducing, and it's what we call our T-Pad. One of the reasons why our Next G network is increasingly attractive is that we continue to enable more applications, more capabilities. Today, with American Express, we are launching a faster, more secure solution for Australian small businesses to get bills paid on the spot.

We have Telstra Mobile Payments, which is a new pocket-sized credit card swipe terminal called T-Pad that works with our Next G mobiles to remove the hassle of handling cash or cheques or chasing up payment. Again, it's all about the experience, it's all about the convenience and it's all about being able to do whatever you want to do wherever you might be here in Australia.

In the case of media-comms, we are changing the game and executing basically our media-comms vision of content, carriage and distribution all under the same roof. Today, you will hear from Justin Milne, Bruce Akhurst and Kim Williams about how the integration of BigPond, Sensis and Foxtel content and services is providing growth as well as, again, value to our customers.

Only Telstra can serve personalised advertising across mobile phones, web pages and embedded within video streams. World-leading advertising executives will tell you that the future is in mobile advertising, and Telstra is already in that space.

Today, we launched a new trial with KFC, Nike, Pizza Hut and Toyota where customers can scan barcodes using the cameras on our Next G mobile phone to directly connect to websites to receive directional maps and obtain .1/11/07

location-specific discount offers, so again extending those capabilities with these applications.

BigPond's market leadership as a hothouse of ideas and content is justifiably recognised. Justin will unveil some major Web 2.0 innovations, including BigPond Office and some other platforms that will be part of his growth story.

Sensis has iconic brands that go across multiple platforms, including our Yellow Pages, which is now Yellow Mobile, and Yellow Online with the added features of location-based services. Bruce will talk about how Sensis has turned around the print revenue results as it continues to connect more buyers and sellers on those terms.

But let me be absolutely clear, because there was a story even this morning, which somebody in this room quoted, characterising Sensis as a troubled business. Nothing could be further from the truth or as reflective of lack of knowledge, because when you benchmark Sensis, it benchmarks at the top in terms of growth and margins. So Bruce will talk about that so that there is knowledge about what is truth and what is fact.

In the case of Foxtel, as we think about the Foxtel business, Kim Williams will talk about the significance of the analogue to digital conversion that they have made, which was the world's fastest, how impressive the subscriber growth has been, now topping 1.4 million customers, and how Foxtel is now in the black, generating earnings, generating cash and doing the things that all of us that invested in this business wanted to see happen. But he's doing it the right way. To me, that's the excitement of the story that you will hear from Foxtel when we talk about the integration that is happening.

In closing, the net results from Telstra's transformation are operational superiority, differentiation and value-based pricing. The good news about all of this is that opinions by many people aren't what we spend our time worrying about. What we spend our time worrying about is what customers do, and the definition now of our results when you look at PSTN, mobiles, broadband and other things is that our customers are voting. They're acting, they're buying and it's showing up in the numbers.

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Today, you get a chance to see the details behind some of the activities now in the business. So our transformation journey is well along the way. Now I will turn it over to John to take you through some of the guidance in some detail.

JOHN STANHOPE: Thanks very much, Sol. Good morning to you all. I will add my welcome. Welcome to what will be a great day, I'm sure.

I would like to take this opportunity to update you on our fiscal year 08 guidance and our long-term objectives. Back in August when we issued the fiscal year 08 guidance, there were two unknowns in terms of potential impact on the business: the OPEL agreement and timing and whether it was being signed, et cetera, et cetera, and the impact of lower regulated wholesale access prices for ULL and LSS. In the three months since then, we now know more.

Whilst the OPEL agreement has been signed, there are no signs that there will be a material impact on Telstra in this fiscal.

As for the lower ULL and LSS rates, we are seeing a bigger impact on wholesale revenue than we estimated, and that has come about by a more rapid take-up of both ULL and LSS services. But this take-up has largely been conversion of existing wholesale PSTN and DSL services in operations, with our retail business still doing well in both PSTN and broadband, leading to an improved outlook for the top line, particularly retail.

However, as you can see from this slide, the top line has been negatively impacted by lower mobile termination rates in line with expected regulated price declines to 9 cents per minute occurring earlier, and FX impacts as a result of the appreciating Australian dollar. As a result, we have made no change to the revenue guidance, but underlying revenue growth is strong, as seen by that \$114 million increase in domestic retail revenue shown on the slide.

At the EBIT line, the foreign exchange impact is a negative \$15 million and the mobile termination impact on the EBIT line is a positive \$21 million. As you know, we are a net outpayer.

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We will also incur additional redundancy by choice, as operations forge ahead of plan in terms of timing with productivity improvements. The net result of those impacts is a 1 per cent increase in guidance for underlying EBIT growth, that is, from our previous 3 to 5 per cent to 4 to 6 per cent.

Now, I need also to discuss the Foxtel distribution, but I want to point out that with the slide, Murphy's law has been at play here. The slide in the handout and that was lodged with the Stock Exchange says "5 to 5 per cent". The slide behind me here, which says EBIT growth of "5 to 7 per cent", is correct. As I speak, there is an amended slide being lodged with the Stock Exchange.

So, in addition, we have received a distribution from Foxtel of \$100 million, and we noted that in a recent ASX announcement. This slide shows that when we add this impact, the result is an increase in EBITDA guidance and a further increase in EBIT guidance.

On a reported basis, including Foxtel, the impact on the original guidance is that whereas EBITDA growth was 2 to 3 per cent, it is now 3 to 4 per cent; and whereas EBIT growth was 3 to 5 per cent, it's now 5 to 7 per cent when you include the \$100 million Foxtel distribution.

This next slide is important. The accounting for the Foxtel distribution is important to understand, because it has confused many in the market. Firstly, the distribution is recorded as "other revenue" in our accounts, so it is not sales revenue. Foxtel has borrowed to fund the distribution and, therefore, as a result, its net assets have reduced.

Because we have an accumulated off balance sheet loss, the impact of the distribution is to increase that loss position. I am really describing equity accounting here. Therefore, our share of accumulated losses increases from the \$73 million that was on our books at 30 June 2007 to \$173 million. As I said, this is held off balance sheet as part of equity accounting.

Secondly, I want people to understand that you should not assume ongoing significant distributions from Foxtel
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through borrowings. This is all subject to the Foxtel board considerations.

Thirdly, you need to understand that any recognition of future profits in Telstra's accounts at its P&L cannot occur until the \$173 million has been recovered. Of course, you know that Foxtel is performing very well, and expectations are that that will not take very long.

Let me move to the next slide. I think it is important, because we gave some guidance at the full year about the half, to update that as well. In terms of the first half result, I said back in August that we would see a slight decline in EBITDA, and it was as a consequence of those things that you can see on the right-hand side of the slide there - MTA adjustments, or mobile termination rates adjustments, in the first half last year, the profit on sale of AAS and we had some Reach credits flowing through to us.

After factoring in the impacts that I have just taken you through, we expect EBITDA to be flat or slightly positive at the half and EBIT to decline slightly on an underlying basis. But, of course, when you include the Foxtel distribution, we do expect that both EBITDA and EBIT will be positive at the half. That is just an update for you on where we see ourselves finishing at the half year.

Let me turn now to the long-term objectives. As Sol said, we are upgrading those as well today. We are already seeing the benefits of the transformation in top-line growth. We have reported that growth over the 12 months, and we are well ahead of the consensus estimate at this time last year.

As a result, we are increasing our fiscal year 2010 objectives on revenue growth and EBITDA growth. Revenue growth CAGR increases from 2 to 2.5 per cent to 2.5 to 3 per cent, and EBITDA CAGR also increases from 2 to 2.5 per cent to 2.35 to 3 per cent.

We are well positioned with strong momentum as we move beyond the peak transformation spend year - and you will hear a lot about that through the day - as we perform well financially and competitively in the competitive market.

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With cost-out and capex reductions to materialise over the next three years, we are on track to achieve our key objective of \$6 billion to \$7 billion in free cash flow in the fiscal year 2010.

Just to finish off the pathway to our revenue objective, you will hear a lot more about our top line momentum throughout the day. This chart is simply a graphical representation of where the growth is coming from to deliver that increased fiscal year 2010 revenue target. Nothing really here should surprise. It is simply a continuation of the good momentum that we have actually delivered over the last couple of years, and that we continue to have in the business.

I will be back a little bit later in the day to discuss the financial pathway to the other long-term objectives in terms of cost and capex, so I will look forward to sharing that with you.

I will now hand over to my friend and colleague, the COO, Greg Winn, to update you on transformation. Thanks, Greg.

GREG WINN: Good morning, everyone. On November 15, 2005 we laid out aggressive five-year transformation build program. Today, we will share the progress we have made during the first two years.

The Telstra team and the partners we have chosen are delivering real results and benefits. We are on track and ahead of our delivery schedule. We have built two world-class networks that are carrying real customer traffic. We are delivering world-class capability, speeds and services. We are deploying state-of-the-art IT tools and technology. We are driving significant productivity gains and improving our customer service. We are raising employee satisfaction while having reduced head count by over 5400 to date across the operations departments.

We said in November 2005 we would build a 3G wireless network by Q1 of 2007. We built the Next G network in 10 months. Coverage equivalence to the CDMA network was achieved in 12 months. We are ahead of schedule and on budget.

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We said we would improve broadband access and provide faster speeds by June 2009. Since then we have built a new IP/MPLS core which was completed in August 2006, ahead of schedule.

We built a multiservice edge which was completed in December of 2006, ahead of schedule.

We built a Next Generation ethernet which was completed in June of 2007 - again, ahead of schedule. IP DSLAMs were introduced in June of 2007, ahead of schedule. The current plan to deploy soft switches is on schedule. FTTN is on hold due to the regulatory and political environment. Surprise, surprise!

We are two months ahead of schedule with our IT transformation. Transformation release 1 is now in production. As Sol said earlier, we went live. IT program is on time and on track.

Our Next G network has more than 6,000 base stations. It is 25 per cent larger than the existing CDMA network. It has peak network speeds across Australia of 14.4Mbps downlink and 1.9Mbps uplink. We have also deployed some sites with 200km range capability in selected areas.

We have installed 2.2 million ADSL1 ports and 2.7 million ADSL2 ports. We have updated 487 exchanges with ADSL 2 Plus in November 2006. In addition, we have completed an HFC upgrade in Melbourne and Sydney in September of 2007. We are providing 30Mbps downlink and 1.5Mbps uplink. We are currently running pilots where we are achieving 100Mbps in Melbourne and 75Mbps in Sydney.

The IT program over the past two years has delivered significant enhancements to our business ranging from market-based management implementation to enhanced capability at the front of house and back of house.

We have also turned up our data centres to support our IT transformation and our future data processors and storage requirements.

The productivity of our field technicians measured by the number of jobs they complete in a day has increased by greater than 20 per cent. We have reduced the cost of
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service activation by over 22 per cent by completing more orders automatically with less truck rolls.

Our targeted network maintenance programs are delivering results. The number of network problems experienced by customers has been reduced by over 40 per cent since November of 2005. So, yes, we have been busy.

The peak spends for transformation spend was, 06/07, driven by our Next G, Next IP and our IT activity, with a capex to sales ratio of about 24 per cent in fiscal year 07. As I have consistently stated we are moving with great speed and our spending has been at the front of the program so we can deliver the benefits to our retail businesses along the way.

We have deliberately built flexibility and scale in each of the wireless, IP and IT programs and we have a clear evolution path to newer technology reducing the need for expensive upgrades in the short to medium term.

Costs are being taken out of our business and this will only accelerate as we take out the legacy platform systems and products. The next three years are very focused on the transition from the old legacy technology to the Next Generation technology and we are not moving our time lines.

Our Next G wireless infrastructure is built and it is already delivering lower cost per bit of traffic carried. We will begin turning up fast ethernet to our base stations in the first quarter of 2008 raising our back haul bandwidth to meet growing demand while lowering our overall cost per megabit of back haul.

We have a clear evolution path with a card plug and new or modified antennae to upgrade the super 3G or long-term evolution. That same hardware platform provides the basis for upgrading to 4G. Super 3G or LTE will deliver 100 plus Mbps. The LAN software is now currently running at over 150 megabits in test conditions.

4G remains on the product roadmap with a target of 1 Gbit. This network has been carefully architected and has the support of the world's leading wireless supplier
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complete with a documented, funded development roadmap. This ensures we have a cost-efficient solution to grow and maintain our network at world class capability.

This line emphasises the reason that sound architecture, a well-developed and documented roadmap and an integrated network are critical in delivering Next Generation solutions. As you can see on the left-hand side of this slide, in one year our Next G network has grown exponentially and has outpaced the mature networks that is replacing them.

As you can see on the right-hand side of the chart, rural Australia is quite pleased with having Next G broadband and technology made available to them only by Telstra. The existing and soon to be extinct CDMA network is carrying a small fraction of data traffic. It is obvious that high-speed Next Generation capability is serving the country very well. Our customers are voting with their pocket book.

High-speed Next Generation technology is absolutely crucial to the development of this nation. As you can see, both national and international traffic carriage is growing exponentially.

If Australians are to fully participate in the global economy, well architected, scaleable connectivity is mandatory. Telstra's national network is architected to handle a growth rate that nearly doubles in growth every two years all the way out to the year 2024.

This transformation delivers scale and flexibility while reducing complexity and lowering historic maintenance and capex requirements. Our capex to sales ratio will be in the ratio of 10 per cent to 12 per cent by fiscal year 2010, compared to the 18 per cent if we would have stayed on the legacy networks.

I will give you two key examples of how we achieve significant cost reductions on this platform. On our legacy environment we were spending approximately \$15,000 per GB e-port. We are now paying less than \$6,000, a 60 per cent reduction per port. With our 10 GB e-ports we have achieved a reduction of over 44 per cent on our cost report.

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I could give you several other examples where we are achieving savings in the range of 40 to 70 per cent but the point is that we are reducing our forward-looking costs dramatically and at the same time improving capacity exponentially.

Another benefit is that our time to market or deployment times have been reduced from greater than three months to less than 30 days. Our soft switch program, when completed, will result in the closure of more than 100 class 5 switches. The resulting savings in opex, maintenance, buildings and facilities, security, et cetera, is very substantial.

In our HFC network, as stated earlier, we have significantly upgraded both the Sydney and Melbourne marketplace. The technology in the HFC infrastructure is equally clear and well documented. Further upgrades in these markets will cost substantially less.

We said in 2005 we would reduce the total number of systems by 80 per cent, unlocking significant productivity savings across the front of the house while lowering maintenance costs in the back of house. We are on plan to achieve annual savings of around \$100 million annually. We have decommissioned 132 systems in 06-07 and another 150 systems are on target for decommissioning this fiscal year. We are currently at better than 80 per cent out-of-the-box capability.

As strategic suppliers incorporate our road map we intend to achieve in excess of 90 per cent out-of-the-box capability. As you can imagine, this will result in a significant lowering of the total cost of ownership for the life of these platforms. While many IT systems have service lives of between five and seven years, our new billing system has a service life the 10 to 15 years.

This year, we have won a number of national and global industry awards. The value of these awards in terms of our industry reputation cannot be understated. They help us to attract best-in-class suppliers, partners and people, not to mention the added leverage in business negotiations and purchasing decisions. Associating with winners makes good business sense whether you are located in Australia or

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overseas. These awards are recognising the early success we are having with the transformation.

As I conclude, I want to emphasise that we are on track to deliver the commitments we laid out in November of 2005. In this past year we have hit a quadruple play of simultaneously delivering improved service, increased quality, higher employee satisfaction while reducing head count and cost.

Let me address the cost issue in summary. Roughly \$4 billion of Telstra's annual operating expense is in the Telstra operations group. We have reiterated that we are in the peak spend years of our transformation. If you remove the one-time costs and drill underneath to look at the recurring costs inside the factory you can see our costs are coming down. Despite the effects of increased volumes, more complexity of technology and inflation as a per cent of domestic revenue, our recurring costs in the factory will drop approximately 200 basis points from fiscal year 06 to this year.

This improved efficiency is happening pretty much across the board. In 06-07 we shaved \$41 million, or 15 per cent roughly off our network service agreement expenses through vendor consolidation and platform retirement. Cost to acquire and install new ports for the new core business has been reduced by up to 62 per cent. Wireless network opex spend will come down when the CDMA network is decommissioned.

Supply chain costs are planned to come down with our strategic contracts. Our cost for billing fell about 10.5 per cent from 06 to 07 and our total billing costs are down \$40 million from 05 to 07. Our cost for fuel is down more than 25 per cent. The cost per fault repair is down more than 20 per cent.

You should think about the factory as a portfolio of activities at various stages of the lifecycle in the transformation. IT, for example, is still very much in the hump of the activity of building new systems and taking out the old. Wireless is nearing the end of the hump as we approach the shut-down of the CDMA.

In Telstra services, on the other hand, the reduction
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and recurring costs of maintaining quality and service has been our primary focus and is already delivering banked results.

I encourage you to listen closely to the presentations of my team to get a sense for the kind of results we expect to see across the factory at each stage of the transformation lifecycle.

To summarise, factory recurring costs as a percent of revenue will decline roughly 200 basis points from 06 through 08 and will reduce further over the next two years.

Telstra's transformation is definitely a team effort across all our Telstra family. Today, Sol and I want you to hear directly from some of the people who, along with their teams and colleagues, are delivering the results for our business. You are going to be hearing in order from Stuart Lee, executive director of the program office which drives this; Mike Wright, executive director of wireless; Hugh Bradlow, our chief technology officer; Mick Rocca, group managing director of Telstra Services; Tom Lamming, our technology and transformation advisor; and John McInerney, the executive director, IT.

It is with good reason that the telco industry around the world is watching us and taking notice. The speed of delivery, the scale of activity and complexity of the tasks that have already been accomplished are second to none. The business results in the first two years indicate that this transformation is indeed a blueprint for any telco around the world undertaking large-scale business transformations. Thank you. Over to you, Stuart.

STUART LEE: Thanks, Greg. In November 2005, we announced an incremental investment of \$200 million over five years in job-ready training for our operational people, covering our field and network services, fixed and wireless engineering, billing product and IT.

Since August 06 we have trained our first field staff. We have trained some further 16,000 operations people through 41,000 course completions delivered by 4,300 instructor-led training days as well as web-based and virtual learning solutions.

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The learning academy through our partnership with Accenture now has a curriculum of 1,633 courses, still growing, including 169 new courses developed specifically for the learning academy.

In May and June we opened two new purpose designed training centres in Melbourne and Sydney, each over 1,000 square metres and each allowing training of around 4,000 to 5,000 students per year.

This development of our people skills is an integral part of the overall transformation program. Our operations people are being fully equipped to realise the benefits of our transformed networks and IT, to support our market-based management approach and to allow them to do the best possible job on behalf of our customers.

We are taking a smarter approach to procurement through partnering with world-class suppliers, reducing the total number of vendors over the long term and streamlining our supply chain processes. The new approach to procurement is reducing costs and delivering better business outcomes. Our phase 1 supply chain transformation agreement with IBM is forcing a single process for procurement in connection with Telstra suppliers based on new 100 per cent out-of-the-box systems.

The business interlock process we established with IBM allows to us to track procurement benefits and adjust our budgets accordingly. Benefits identified since September 2006 are \$129 million, with a further \$30 million year to date in 07-08. The incremental benefits stemming directly from the phase 1 agreement with IBM are included in those procurement savings already mentioned.

Whilst the incremental savings are small as at the end of 06-07 but ahead of our plan they will grow strongly with the removal of access to the legacy procurement systems which happened at the end of October, i.e. yesterday. We continue to expect the cumulative incremental benefit will be \$500 million over the seven-year agreement and we are exploring with IBM opportunities for phase 2 of our supply chain transformation which will be targeting more efficient logistics and inventory management to build on phase 1.

We entered into the partnership with Bright Star to
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leverage their global market based footprint and our combined buying volumes into better unit prices, shorter lead times and better influence over device road maps.

We estimate the partnership with Bright Star for mobile devices supply chain procurement has saved \$70 million in the 05-06 financial year and \$246 million in the 06-07 financial year. It delivers for us improved surety of supply, stock control, fulfillment, freight management and consolidated IT systems.

It has delivered enormous value for our shareholders but has unfortunately been subject to inaccurate press coverage and the loudest critics appear to be those who would see those savings as bare profits.

We have surpassed our own forecast at last investor day on October 2006 when we said we would have expected to have achieved \$220 million of savings by the end of the 06-07 year. We actually achieved \$316 million in savings.

Telstra has the largest commercial property portfolio in Australia with over 14,300 sites nationally, a total of 2.4 million square metres. We continue to consolidate our property portfolio to drive efficiency and deliver significant cost savings. Our leased or non-networked portfolio includes the obvious office, warehouse and call centres but also leased mobile tower sites and retail shops.

Since 2005 we have exited 66 properties. We have reduced floor space by over 107,000 square metres and made cumulative annualised savings of \$34.8 million, offsetting rent reviews and additional tower sites and shops.

Within our own largely networked property, which includes the exchanges and depots and the like, we have stood up and sold surplus land and consolidated our site service contracts.

We are continuing to improve energy and water efficiency. We are on track this year for electricity savings around 18 million kilowatt hours and 83 million litres of water. These savings could provide the annual power consumption and fill a swimming pool for more than 2,000 suburban homes. Our Brisbane CBD headquarters and .1/11/07

Clayton office complex projects will release a further 17,000 and 10,000 square metres respectively.

Ahead of the mainstream IT transformation, our billing and credit group has continued to improve our capabilities. In support of market-based management, we have proved how we can target specific messages by customer and we can deliver billing by segment and customer preference. We are trialling a new, simpler summarised bill format. We expect that this initiative will deliver savings of around \$23 million over three years. Single-bill customers are now 2.87 million, up 16 per cent for the year and on track for 3 million by the end of this calendar year. Online bill registrations rose 35 per cent year-on-year to 1.1 million.

These improvements are reflected in our costs. Cost per bill is down over 10 per cent and overall billing costs were down by over \$15 million in the last year. I would now like to hand over to Mike Wright, our executive director of wireless engineering and operations. Mike.

MIKE WRIGHT: Thank you. In November 2005, we announced our plans to build a single national city-to-country 3G network. We chose the 850 megahertz spectrum because of its superior coverage and range capabilities and we chose Ericsson as our strategic partner. The objectives of that strategy were actually twofold: firstly, to eliminate the duplication of investment by dilution of capital and the duplication of operational costs with running two network technologies; and secondly, to build a state-of-the-art, more capable and lower-cost platform using the world's most dominant GSM ecosystem and technology road map.

This is how we went. In October 2006, on that day that it rained, we launched the Next G network. Then in February 2007, we upgraded that network to 14.4Mbps HSDPA and 1.9Mbps HSUPA capability, one of the first operators in the world to do so. At the same time, we introduced a 200 kilometre cell-range capability on selected sites, again, the only operator in the network in the world to have done so. From July 2007, we commenced the deployment of a Next G based wireless local loop service capable of delivering both voice and fax services, but also wireless Broadband and then last month, on 15 October, we announced that we had achieved our coverage equivalence objective

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that we'd set ourselves when we first initiated this project.

In developing the plans for the CDMA closure, we set ourselves the objective of ensuring that Next G would be as good or better than CDMA. We didn't need anybody else to tell us that we needed to do that. Our starting point was a CDMA network with a coverage of just over 1.6 million square kilometres and 3,480 sites. This is the resulting Next G network coverage, ahead of time and on budget. Telstra has delivered Australia's and the world's largest national 3G network and the Next G network now exceeds CDMA on every front.

The network was built on every GSM and every CDMA site, it now extends to over 6,000 sites and covers over 2 million square kilometres and over 98.9 per cent of the Australian population. This is more than 2,500 more sites than CDMA, so delivering greater breadth and depth of coverage and also providing service to new areas where CDMA never previously covered. All of these areas have access to Next G's turbo-charged speeds and services.

In the end this is about competition and Next G provides a single network platform to compete in both the 3G mobile and also the wireless Broadband space. That is a single network platform, not a duplicated platform. With over 2 million square kilometres of coverage, you can clearly see that it dwarfs the competition from any other 3G network in Australia.

In the 3G mobile space and also the wireless Broadband space, Next G is here, it is now and it offers impressive speeds today. With the size of the footprint over 200 square kilometres, it is already well ahead of any hypothetical network that may be coming along in the future.

Next G today is delivering on Telstra's vision for a Broadband service to Australians, but this is not just about coverage and speed, it is about what it enables our customers to do when they have access to both, when they can plug that blue cable in nearly anywhere they are. On October 15 we reached our coverage objective when we announced that the Next G network was equal or better than the CDMA network. How did we do this? Firstly, we built
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the Next G network capability from the ground up, commencing in 2005 and using the skills of the team that we'd built over a long period of time working in the wireless environment. We used the same 850MHz spectrum with the same radio performance and coverage parameters and we used the same network configurations as the CDMA network, the same antenna positions, the same antenna directions and the same antenna types.

How did we confirm we got this right? We drove over 120,000 kilometres using sophisticated test equipment to compare the performance of the signal levels of Next G devices and CDMA devices in the same configuration. In that process, we gathered in excess of 500 gigabytes of data which was processed, analysed and used to further optimise and adjust the performance of the network and close any gaps that we found.

Following that, on 15 October, we made an announcement and the ACMA then confirmed an immediate start to the official audits and of course we welcome the outcome of those audits. Our testing didn't just stop there. Additional to numerous local tests by engineers and technicians, we invited MPs, the media and customers to join us on drive tests and compare the Next G and CDMA networks for themselves. In that process, we've done over 30 demonstrations and we've covered in excess of 14,000 kilometres. On each occasion, we've successfully demonstrated the performance of Next G.

Finally, on the point of coverage, the customer experience that's delivered by the network is a combination of both the network and the configuration of the device being used. All wireless networks use radio signals and those radio signals drop off towards the edge of coverage. Customers in strong coverage areas can afford to be more casual about the device that they choose and the configuration they select, but for customers working and using the network at and beyond the edge of coverage, which many of our customers choose to do, it becomes much more important that they choose the right configuration to get the best service.

This applies equally to the Next G network as it did for the CDMA network, where car kits, patch cables and a number of devices in the range emerged as the most common

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solution for some rural users and as you'll see, we've sourced a number of specific devices optimised for those uses. With the right configuration, customers can readily achieve the same or better performance on the Next G network as they could with CDMA.

Again, when we compare the network numbers, the numbers speak for themselves in terms of network size, speed and performance. Next G is as good or better than CDMA on every count. Next G's voice drop rate achieved a world-class sub 1 per cent level in just 10 months. The CDMA network took six years to get to this level. It is superior to other 3G networks and wireless Broadband networks in Australia in terms of site count, in terms of area and in terms of population coverage. It is here, it's now and it's not hypothetical.

The proof points of Next G are in the network take up and the traffic trends tell us that customers are actually voting with their feet. The Next G voice traffic already significantly exceeds CDMA and Next G data continues to grow exponentially, dwarfing our CDMA and video traffic. Our ability to service this growth economically lies in the use of HSDPA and the HSPA road map. Already a software upgrade from 3.6 to 14.4 increased our peak network speed and ability to carry more traffic.

Our future HSPA+ enhancements will further increase the capacity and continue to lower the unit cost of this network traffic. Down the track, incremental network upgrades will build on the infrastructure we've laid to expand to LTE, long-term evolution, and later to 4G, further expanding the pipe and lowering the cost of capacity.

Our November 2005 strategy plan set us on the GSM ecosystem road map. Our infrastructure is ready and capable now for fast ethernet and HSPA+ upgrades with minor software and hardware additions. We'll begin these upgrades in the coming year and fast ethernet will take advantage of some of the already transformed Telstra transport network. It doesn't stop there. In the future, enhancements to HSPA+ will set us to extract further capacity out of the network and put us on the road to LTE and 4G. This means that quite simply we have a network now, ready for the future. Thank you and I'll hand over to .1/11/07

Hugh Bradlow.

HUGH BRADLOW: Thank you, Mike. When we embarked on the transformation of our network technology two years ago, we chose the technologies not on the basis of a quick-fix solution, but on their ability to create a lasting legacy for the future. With these new technologies we'll be able to deliver the most advanced services to our customers now and into the future.

For example, in the mobile environment, we recognise that as customers become increasingly confident and familiar with Broadband access at home and at work, they'll want to mobilise that Broadband access and that the future mobility is therefore about voice and Broadband, not just voice alone. Broadband networks create different demands. When we chose our 3GSM technology as opposed to WiMAX, we did so on the basis of four key factors. As Mike Wright has already pointed out, the 850MHz spectrum that we had available ensures that we get better coverage than would be possible with the current frequencies at which WiMAX operates.

Secondly, the proven ecosystem of the GSM environment is a big factor: for example, the simplicity of SIM card authentication and the ability to seamlessly go around more than 200 countries in the world and roam without a hitch. Thirdly, the GSM technology track constitutes about 80 per cent of the world's mobile market today which ensures that we'll get the economies of scale and the choice of handsets and devices that we need for our customers; and fourthly, there were already GSM 3G networks with high speed packet access in operation when we chose to go down this technology track, so there was a proven track record.

The difference between our deployments and any other deployments in the world, other than for the city states, is that we did a blanket roll out of national high speed packet access and that has been significant because it has actually changed customer behaviour. We find that people behave differently when they know that virtually wherever they go in the populated regions of Australia, they can get Broadband access. They start thinking about it differently.

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In terms of our fixed technology, we chose to use the IP network. IP network technology is not new, of course, but delivering carrier-grade IP most definitely is. Not only do you need the speed and scalability of IP networks, but you have to introduce reliability, robustness and security. One of the key factors in that regard is the robustness of the routing platform and that's why we chose the Cisco CRS1 environment because not only does it offer scalability, as I'll explain in a moment, but it also provides six lines reliability which is critical in this environment.

We also chose to use the ethernet as our back-haul technology and that was relatively new technology at the time, but we recognised the unparalleled scalability and lower unit cost that the ethernet was critical in delivering to the Broadband vision that we have. Thanks to new technology from Alcatel Lucent, we've been able to deliver our ethernet aggregation network with carrier-grade reliability.

Anyone who knows anything about this industry knows that our customers expect and demand ever increasing Broadband access speeds. Today consumers are focused on high-speed internet and we've already seen speed requirements go up from 256Kbps a few years ago to multi-megabits per second in today's environment, largely because of the increasing amount of video and rich media content on the web, but we're about to enter into the video-on-demand era and we know that in an IPTV environment that to deliver standard definition TV to the average household will require about 12Mbps.

However, very soon customers will be demanding high definition TV and that will require doubling of speeds yet again to about 25Mbps and beyond that, we're already seeing the emergence of services such as Telepresence, emergence of the 3D environment and augmented reality which are going to require multi-tens of megabits per second in order to satisfy customer needs.

On top of that, we've also seen the advent of the network home which is ensuring that multiple devices in each home, multiple PCs, multiple TVs, sensors, controllers, are all going to be making simultaneous demands on that network access and thereby further

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increasing the network demands.

In the business environment, we're seeing things like Telepresence has the opportunity not only to reduce costs in greenhouse gases, but to change workforces for companies because workers can now participate fully in the workforce environment without having to commute. We are going to see the next generation of productivity in the health sector being delivered through high-speed network access: for example, the ability to instantaneously transfer x-rays or to use widespread sensor networks to monitor patient life signs remotely and in real time. Australian scientists will be able to participate in international fora without the need of actually having to travel.

In order to be able to support that increasing speed demand, we're working on a range of technology platforms that will allow us to scale into that future world. As Greg has talked about, we've got copper solutions, cable solutions and fibre solutions. In the copper environment, we have ADSL 2+ covering 57 per cent of Australia's 8.5 million homes, but we're already working on the next two generations of copper-based technology, VDSL2 and dynamic spectral management, both of which will increase the speeds by doubling, so that the copper technology has the potential to get up to 100Mbps.

As Greg talked about, we've already upgraded our hybrid fibre co-ax network to 17Mbps and in Sydney and Melbourne to 30Mbps, but again, we're already working on the next generation and we've got a pre-Docsis 3.0 channel bonding trial running which is delivering 75Mbps in Sydney and 100Mbps in Melbourne. We know that with Docsis 3.0, the standardised version, we'll be able to get up to 250Mbps of performance. Fibre to the premises is being deployed in new estates. A commercial offering at the moment is about 20Mbps, but we know the technology can take us to 2.5Gbps in the future.

The access network is key, but you still need the engine of the IP network behind it driving it. We have deployed an infrastructure in the Cisco CRS1s that we know can scale up to the requirements of the future. Cisco have recently done a study in which they've shown that IP traffic continues to grow at double approximately every two years. Even with this increasing traffic load, we know

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that our network can scale up to, as Greg said, 2024 without a significant re-architecting of the network which is extremely important in many ways, but one of which is the capacity augmentation cycles can be significantly reduced as a result of that.

In the PSTN world, transformation to soft switching is going to be important because it's going to offer flexible new services to customers. We are starting that journey this year with the introduction of the first two mated soft switch pairs. We are upgrading our IP DSLAMs to become multi-service access nodes so that we can connect our telephony customers directly into that soft-switching environment. In the following financial year, we'll begin to migrate our customers into the new soft-switching environment and we will have completed by the end of the next financial year the deployment of all five major soft-switch pairs, which will ensure that we can upgrade all our services into the future.

Finally, the introduction of the next generation network means that we can stop spending capex on our legacy network platforms. Even though ultimately the ability of the customers to transition to new services determines the rate of migration, we have been able to cap or exit 144 network platforms and we are well on target to achieve a 65 per cent total reduction in network platforms by 2010. As Mike Wright has pointed out, the most high profile example of that is the CDMA network which was capped in the last quarter of 2006 and is on schedule to be exited in January 2008. With that, I would like to hand over to Mick Rocca. Thank you.

MICK ROCCA: Thank you, Hugh. Good morning. Telstra Services is a \$4.5 billion national operation with around 15,000 staff responsible for the construction, operations and maintenance of all Telstra networks across Australia and we install and maintain services for all our customers. We complete around 25,000 service jobs a day. Our inbound contact centres receive over 13 million customer inquiries each year: that's over 35,000 a day. So it is crucial that our people and our processes operate as efficiently and effectively as possible.

Since November 2005, we have made great progress. We have made substantial changes to our operating structures.
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We have improved our processes and our supporting systems. We have invested in the latest tools, training and equipment for our people. We have increased productivity. We have substantially reduced costs and we have improved customer service. We are delivering on our promises.

This slide gives you a sense of some of the improvements we have been making. Let me highlight a few of the big numbers, the big achievements here. More than ever before, we have been focused on reducing costs while at the same time improving the customer experience.

How did we achieve this? We have focused our investments on making sure, as I said before, that we have the right tools, the right training and the best technology available, and we have re-engineered and simplified our processes. This means that we are getting the job done right the first time. It also means that we are working smarter and eliminating rework and duplication.

If you have a look, the ADSL held orders have reduced by over 90 per cent from over 19,000 in November 2005 to less than 2,000 today. Productivity has increased by over 20 per cent. Cost of service activation has been reduced by over 22 per cent, meaning that our unit costs are reducing with our targeted maintenance program delivering really positive results.

Our networks are more reliable, with over 40 per cent fewer trouble reports per 100 services. All of this shows that we are working smarter and, importantly, we are not slowing down. The improvements continue this year, with a lot more emphasis on fixing customer problems at the first point of call. This, of course, improves the customer experience and reduces our costs, as fewer truck rolls or field visits means less costs, and when we do send a technician, they are more productive and they are getting the job done right the first time. Revisits are also down by 28 per cent. This results in an improved customer experience and less rework, and less rework means, again, less costs.

So how are we achieving these results? There are many initiatives here. I will not go through all of them, but let me give you three key programs that are making an enormous difference. I will start off by talking about our .1/11/07

contracting model.

In September, I announced the transformation of our contracting arrangements right across Australia, reducing the number of contractors that we deal with from over 175 to just three. These dramatically simplified arrangements that we have with visionstream, servicestream and Silcar are eliminating duplication in our contracts, simplifying the way we deal with all of our contractors, therefore reducing our administrative costs and saving Telstra \$75 million a year.

The introduction of strategic partners in this area is transforming the industry as we know it. These arrangements are groundbreaking in terms of their size and scope and they are consistent with our partnership model; that is, all parties have skin in the game. This is about making sure that there is risk sharing by our organisation and our partners as well and all parties are committed to success.

The second major program I would like to talk about relates to our contact centres or call centres. We have already made significant progress in the consolidation of all our fault centres, our technical support areas and our help desk centres, moving from 17 sites across the country to 4 major sites. This is about moving away from a high number of small, specialised teams performing site-specific functions to a smaller number of centres with people who have a broader range of skills covering a number of different functions. You can see there the 81 per cent improvement in cross-skilling.

By doing this, we simplify the way we deal with customers, we reduce call transfers and we increase staff utilisation and occupancy. This is really about optimising our workforce. As a result, first call resolution has already increased by 22 per cent, meaning improved customer satisfaction. In addition, of course, fewer hand-offs means less rework again. Fewer sites means reduced lease costs and we need fewer consultants to do the work. The end result - \$40 million a year in benefits for the company.

The third program of work is all about improving the effectiveness of our field workforce. As I said earlier,
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our field workforce productivity has increased by over 20 per cent. One of the ways to increase productivity in a field workforce is to reduce the time spent in travelling between jobs.

As you can see from the chart, we are reducing travel time per ticket of work. When you consider the number of technicians we have and the number of jobs each day, two minutes is significant. We are doing this by being more effective in the way we plan, program and schedule jobs every day.

The added value, of course, is that with less travel, we create less pollution. In less than 12 months, we have eliminated roughly 600 tonnes of CO2 emissions. Less travel time per job also means that more jobs are completed each day, which means fewer costs.

So what else are we doing to help our technicians to achieve more? We have invested over \$27 million in new tools and equipment, making it easier for our people to do their jobs. Through the learning academy, as mentioned by Stuart before, we are making sure that all of our technicians are being trained to do the job right. We have also deployed GPS devices and satellite navigation to all of our fleet of operational vans - and there are over 7,000 of those - enabling our workforce to operate more efficiently and effectively.

In addition, our technicians now have high-speed data access. This puts the information they need at their fingertips, such as detailed maps, information, designs and work instructions, and they can access this information via their purpose-built mobile computers and a specialised online portable. So all this means that we are sending the right person with the right skills to the right job.

The good news, as you can see on the slide, is that not only are we taking costs out of this business, but we are improving the customer experience and our service levels.

I have been in this company 38 years and I am often reminded of this in the organisation: these are the best results I have ever seen, these are the best service results I have ever seen, whether you look at the
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front-of-house performance or whether you look at the customer commitments or whether you look at our network performance. Again, these are the best I have ever seen.

In my 38 years in this company, I have met thousands of technicians and engineers, and talked to many of them, and never have our people been so engaged and so enthusiastic about the changes that are taking place in this company. I mean, these are big changes. They can see that we are delivering, they can see that we are delivering on what we promise and that our customers are benefiting, and, of course, we are making it easier for them to do their jobs.

The changes that we are putting in place have really united the workforce like never before. With that, let me introduce Tom Lamming, who leads our IT transformation. Over to you, Tom.

TOM LAMMING: Thanks, Mick. That's very impressive. In 2005, we announced our company-wide five-year transformation. Simplifying and transforming IT is central to this plot.

Here are the priorities we set forth back then. We first focused on the consumer side of our business to address the complexity and the volumes of our number of customers, transactions, employees, IT customer care and billing systems.

Secondly, our operating support systems deployment continues in support of the network migrations, which must be aligned.

Third, we tackle enterprise transformation across areas such as billing, managed services and IP-based products. As we move through the transformation, we are decommissioning the multitude of systems embedded in our environment, what we call spaghetti. This work commenced over a year ago and continues throughout the program. Telstra's transformation is the biggest and most complex ever undertaken by us and amongst the most complex in our industry. That is a significant challenge, and we're up for it. Our progress reflects the commitment and resolve of our leadership, our employees and our partners.

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I am extremely proud to stand up here today on behalf of all the people who are committed to the success of this program and confirm that we are now indeed in production. This is a significant achievement for Telstra, our employees, our customers and our shareholders. We have delivered two months prior to the end-of-the-year commitment due to the focused efforts of our people and our partners, including Accenture, IBM, along with Sun, EMC, Oracle, Converse, Amdocs, among others. We have stood up our new customer solution in an extremely aggressive time frame and we have done so with minimal impact to our operations.

There are some impressive facts that showcase the magnitude of this effort that John will speak to momentarily. We are on track for our program deliveries in 08-09. As part of our second release, we will focus on the following: mobiles and broadband across fulfilment, CSA and inventory and continued OSS migrations.

We have applied our one-factory principles to get us to this point: do it once, do it right for the customer, do it in an integrated way and do it at a low unit cost. These are the principles we live by day to day. They have become our mantra.

Before we focus on the TR1 journey, I would like to point out that we have driven a high volume of work through our business while maintaining our commitment to delivering the transformation program. Last fiscal year, we delivered similar volumes of work with greater efficiency in the areas of delivery time frames, cost and quality. We have delivered enormous volumes of capability into our channel operations, supporting our business in a very competitive market.

This reflects the new Telstra. Let me highlight several examples from this slide. Firstly, the Telstra retail integrated campaign system: this new campaign management tool is providing our marketing teams with accurate, timely information to provide our consumer customers with the right offers at the right time in the right way that are easy to take up. This has delivered an estimated 400,000 additional services and significant incremental revenue.

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Integrated desktop: this is about operational efficiency. We have now 2,700 front-of-house consultants and 2,000 users in the Telstra shops delivering real benefits - a 60 per cent reduction in log-in times and a 22 per cent reduction in time spent on key transactions.

Data centres: we have consolidated our infrastructure and storage requirements through a build and upgrade strategy. Earlier this year, we opened a new data centre in Sydney and upgraded existing facilities to support the first release of our IT transformation program.

Our program is closely aligned to the business to deliver these benefits and outcomes. Our TR1 journey has seen us working hand in hand with our business partners, David Moffatt, Justin Milne, John Stanhope, Bill Stewart, Holly Kramer and Deena Shiff, to ensure that our new IT environment has absolute relevance to Telstra's entire business.

We are focused on the enhanced customer experience while eliminating complexities that our front-of-house and back-of-house employees deal with today. This highlights the breadth, scale and commitment that Telstra has to transform its operations, winning in the marketplace and serving our customers. The outcomes we seek are closely tied to these benefits - enhanced service levels, speed of delivery, increased productivity.

There are two points that I would like to make before handing it off to John. First, David Moffatt refers to the work we are doing in the IT space as the turbocharger for Telstra's consumer transformation. This highlights the significant role that IT is playing in Telstra's transformation to a 21st century media-comms company, in the partnership we enjoy and working with the business.

Second, the senior leadership team is absolutely committed to this work, which will ensure that we deliver the right environment with the right solutions to the business, and they, in turn, will be ready to maximise the benefits that a transformed IT environment will deliver.

I will now hand over to John to step you through our transformation, release 1 journey.

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JOHN McINERNEY: Thanks Tom. We kicked off our IT transformation in November 2005, and from that moment we have been working to an extremely aggressive schedule.

Back in 2005, we elicited a number of key drivers for success, including the out-of-the-box development approach and partnerships with world-class vendors. We started this journey committing to these principles with the core driver being minimising customisations and, instead, looking at where we could change our internal processes.

This enabled us to achieve reduced delivery time frames through aspects of the development cycle via, one, best practice design processes, leveraging the experience of our world-class partners, Accenture, Oracle, Converse, to name a few; two, standardised and re-engineered business processes; and, three, accelerated design and build times with the minimisation of customised solutions.

We brought together thousands of people with one aim in mind: to deliver a successful transformation program at record speeds. The metrics listed on this slide demonstrate the benefits to this approach: less customisation means less complexity and an IT environment that will continue to support our future requirements.

We moved quickly to design and build and process re-engineering where we have delivered significant infrastructure requirements and built our solutions to best practice standards. We achieved this without compromising quality. We will have completed extensive testing with over 66,000 test cases over the course of our consumer transformation journey.

As mentioned earlier by Tom, we have just gone into production with our consumer release TR1 this past weekend. These building blocks are now in place, and this is a huge achievement. We have customer accounts on our new platform, which is fully integrated with our legacy systems. Eight weeks ago, we pressed the button to proceed deployment. Since then, we have integrated 147 legacy systems, switched on the new infrastructure, initiated operations and training and started migrating customers from old to new.

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We achieved these complex changes without disrupting our current operations, and today we are running both new and existing environments in parallel, all with only minimal disruption to operations.

This is also a major step in the deployment of our highly standardised utility infrastructure offering operational efficiencies, architecture and, most critically, capacity to meet future business needs. For example, we are now using standardised platforms from Sun offering some 20 times the processing power typically used five years ago. Considering that last year we saw a 64 per cent growth in internet usage on top of an approximate 250 million raw usage records that we process every day, you can quickly understand why this capacity and flexibility are so critical.

We remain on track to complete the customer migrations prior to the end of the fiscal year June 08. To give you a sense of scale and size, at the completion of TR1, we will have trained 21,000-plus participants across front-of-house, back of house, operations, Telstra shops and dealers and converted over 5 million customers, representing a significant portion of our revenue base.

This is a huge undertaking for Telstra and, by many yardsticks, a huge undertaking within our industry. Upon completion of our first release in June 08, we will focus on broad OSS capabilities across mobiles, and BigPond the following fiscal year.

I now invite you to hear more about our IT transformation, the benefits and the magnitude of our program from our people and our partners.

(Video played)

TOM LAMMING : Thank you, John, that is very impressive. I think Andy's comment about the heart and lung transplant is spot on with how we delivered TR1.

Let's now turn to some of our IT metrics. Our cost profile will fundamentally change as we do two things: (1) as we deliver the new IT application and supporting infrastructure; (2) as we decommission our legacy applications. These charts are interrelated and highlight
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the fundamental drivers supporting these changes. First is less complexity. We will no longer maintain multiple systems via multiple providers. In our new platforms we will be delivering out-of-the-box capability versus the custom application or heavily customised application software we have today.

We are positioned to take advantage of our strategic providers' product road maps as we participate in their advisory groups which influence their future releases. This positions us to sustain our out-of-box strategy.

Fewer systems: we have already decommissioned 200-plus legacy applications since we started this program, which is helping us manage our transformation and current costs. In the out years we will accelerate the decommissioning program as we deploy new systems. As this occurs we will reduce our costs.

Third, the number of systems we maintain and the number of systems requiring changes for such things as new product introductions and products plan changes.

The reduced IT capital spend related to transformation: Our transformation-related cost/spend profile will reduce dramatically as we stand up our infrastructure and deliver the program. We have a considerable amount of infrastructure in place today and we have just delivered our first major transformation release as announced. TR2 remains on schedule consistent with the spend projections.

Finally, greater efficiency: Our data centre operation savings increase as we decommission legacy and move to superior technological platforms operated under our infrastructure agreement with IBM; also significant benefits derived in our out-of-the-box strategy delivery program as noted above.

Now we will turn it back over to Greg who will handle and Q&A and wrap up.

SOL TRUJILLO: We are going to have a Q&A session now with Greg and the operating team here and because we are going to have a media session a little bit later, this Q&A will be limited to those from the investor community. So we will go ahead and get started. I will moderate it and,
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again, we will limit the questions in this session to the operating issues. John and I will have a separate Q&A around the financials and broader issues. Justin.

JUSTIN CAMERON (CREDIT SUISSE): Just a few questions around margins. There has been a lot of discussion today obviously about the cost out improvement that you are generating as part of the transformation program. At the second half results we saw some improvements coming through in the mobile margins. I think the numbers were something like 400 basis points - obviously from a pretty big step down we saw in the first half.

Can you provide some clarity around what's going on obviously from a mobile perspective. Also around broadband, obviously given the improvements you are getting in ARPUs coming from broadband at the moment, how does that translate through with the margin profile.

SOL TRUJILLO: Justin, I am not going to duck the question. The answer is they are getting better but we are going to cover it in the session with the retail group. David Moffatt and Justin and everybody will be up talking but you will see the margins continue to improve and we will talk about that this afternoon.

What I want to do is give everybody the chance to talk with those who are on the operations side and deal with those issues now.

JUSTIN CAMERON (CREDIT SUISSE): Maybe a question for Greg. You alluded to some pretty significant cost savings. This is part of my question. What was kind of cost expectations can we see over the next 12 months in particular given the profile you show at both the capex and opex level. Capex in particular seems to dive quite aggressively this financial year. Where are some of those savings being generated, in particular obviously as roll off Next IP and 3G and the like?

GREG WINN: Basically, I said that our wireless network build which continued into this fiscal year were at 6,000 plus base stations. We have the coverage and the capacity we want. You saw the uptake on how it is going in rural Australia and actually across the nation on our Next G network. We have that infrastructure in place so we are
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not going to be investing as much capital. As Tom was talking, it is not insignificant - this probably is the single largest milestone that we will ever hit in terms of the IT transformation was going into production because so much work over the last two years has had to be done and so much capital spent that to build duplicate data centre capability, installing the latest and in many cases the most expensive initial first cost type of technology in place will serve us well in the future.

As I said, our forward looking costs drop dramatically because we put so much capacity and we are over the largest build pieces of what we are going to do. We are running the consumer software and production. We are running a lot the software in test that we will be bringing out. The infrastructure and standing up that hardware in the data centre space, that stuff is relatively in place so lots of reduction there.

Our IP/MPLS core is built. The scalability is there. We are away from the hard, capital-intensive spend and more into software upgrades. We don't have to do as much truck rolls, we don't have to visit the sites, we can do things from a central location. You will see our capex bend over and we are very comfortable with that capex/spend profile on the operating side. We are usually the guys that bitch about it. Do we have enough of it or whatever? We are well taken care of and that's a tribute to Sol and his senior team that this was a multi-year funded program and we front-end loaded it and we are moving very fast.

SOL TRUJILLO: We will move on here just to add that we are going to say this at least five times today. You have heard it once, you are now going to hear it twice. We have now built the networks. We are investigating in the IT. This stuff is good more many years, as we think about capex and as we think about the run rate on capex to sales.

We will most of over here to the right, we will go then to left, and back to the middle.

SAMEER CHOPRA (DEUTSCHE BANK): I will just ask two questions. First of all, you have started your customer migration on to the new IT platform. I was wondering if you can give us some feedback in terms of have you seen an increase in customer issues; have there been any issues
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that investors should be concerned about?

My second question relates to your network partners. You are migrating from 175 to three partners. Are you comfortable that these three partners with scale up to deal with Telstra?

TOM LAMMING: Initially, out of the gate we are not seeing anything in terms of any significant customer impact. We are staging in the migrations and the technologies over a multi-month period through the course of the remainder of the fiscal year. That allows us to contain the issues, if you will, that come in with large, big bang migrations. We are doing it on a staged migration basis so that we can cover all the burning in of the new procedures, platforms and technology. So far, knock on wood, everything is going exceedingly well and we expect that to continue as we go into mass migration early next year.

GREG WINN: I would like to add to Tom's comment. Actually, going back a couple months ago when John McInerney indicated that we turned up some of the platforms when they continued to run and did cause problems with our legacy, because that's some of the most complex stuff we do. The new stuff works. It is kind of an engineering miracle in and of itself, but the true story is not screwing up the spaghetti bowl that has been in place for a long time. We got that hurdle a couple of months ago. That was good. Before we actually went live on Monday, or over the weekend I should say, when we were able to move daily anywhere from 100 million to 120 million transactions on the usage data platform and have it matched perfectly with no leakage, no data, I knew we were over the hump. It has been very refreshing. We made it till Thursday morning and you are actually the first person to ask the question: are things running smoothly? We hadn't announced it because it's just going so smoothly it's scary.

On the second question, I think I will let Mick handle that. He has been the architect of this consolidation. .

MICK ROCCA: Moving from 175 contractors to three is not easy, and we don't do stuff that's easy. A lot of the changes we make are difficult. However, we are making sure that we have got transition arrangements over the next six to 12 months, tight controls and governance, as the
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industry changes, so you will see a lot of movement in the industry. You will see subcontractors move from one prime to another, et cetera.

The three partners that we have chosen we have worked with for many years and we know their capabilities. So over the next six months or so, we are making sure things don't slip and customer service doesn't get impacted. Let me tell you already we are nearly three months into it and things are going right on schedule, right on track.

SOL TRUJILLO: Before I move over here to you, Tim, I want to introduce one of the individuals on the stage that did not present but is a core part of our team, and that is Ian Wheatley who runs our procurement business. When Greg and John and others talk about cost takeout, obviously how we are managing the supplier relationships, how we negotiate the contracts and have renegotiated virtually all contracts, Ian has done a tremendous job.

So in case there are any questions there, I just want you to know who he is. Tim.

TIM SMEALLIE (CITIGROUP): I guess a question for Hugh. You touched on the HFC upgrade to 30 MB in Sydney and Melbourne. Maybe if you could give us colour around what you are seeing in terms of consumer adoption of the service. And also you touched on DOCSIS 3 as a potential upgrade path. Could you give us some colour on what the cost of a DOCSIS 3 upgrade would be relative to FTTN.

Finally, you mentioned HDTV over the pipe. Would you see that as a Telstra HDTV service or is that delivery of Kim's HDTV service

HUGH BRADLOW: I am not going to comment on the latter. In terms of adoption of the HFC 30 Mbps, it is automatically turned on for customers in Sydney or Melbourne if they Cable Extreme customers. The anecdotal evidence we have is that the experience is terrific. People have been blown away by the change in speed outcomes. What was your second question?

SOL TRUJILLO: Hugh, why don't I goes ahead and address those questions in terms of cost of Docsis 3.0. We are not going to share those costs, Tim, but I think Greg already
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alluded to it in terms of his presentation that we think that if we chose - and this is an "if" - to roll out a footprint that was associated with HFC and DOCSIS 3.0 we could do it at equal to or less than FTTN. So enough said relative to that.

Regarding high def, obviously you heard me talk about the integration of services and capabilities. The capabilities that we have enabled already in order to deliver the Cable Extreme does in fact enable us to deliver high def over our Sydney and Melbourne footprint today.

LAURENT HORRUT (JP MORGAN): I wanted to have some colours from you on the PSTN transformation. It seems like the FTTN situation is kind of slowing you down on the PSTN transformation. Is that the situation? The targets have been moved forward by sort of about a year.

GREG WINN: We haven't been slowed down. I mean, it made us rejig the schedule. Back in November 05 we had the infamous asterisk on it and, you know, we didn't hold our breath, at least I didn't, and none of these guys did because they have a lot of work to do. We have had our hands full. When you look at all of the accomplishments we couldn't move - at least I don't think we could; Sol always does - any faster than we have moved. We are going as hard as we can and we are turning things up. If there is clarity and a decision made in that space, then we will accelerate once we know that. That's why we have pulled forward as much as we have pulled forward in the event, if that becomes a reality, we have the horsepower to do a hard right-hand turn into that project and deliver faster than anticipated.

SOL TRUJILLO: I am not quite sure I understand what is behind your question. We are not behind in terms of what we are and where we are at. Why don't you explain?

LAURENT HORRUT (JP MORGAN): Just on the soft switch and classified retirement, I thought the initial date line was June 08. Now you are showing it as June 09. There is a comment in the pack saying the time lines have been adjusted given the FTTN deadlocks. That's where I am coming from.

GREG WINN: I think the date you are referring to was in .1/11/07

the context that we would be finished standing up all the switches by then. We still have switches stood up by June 2008. We are on schedule to do that. Sometimes when you look at those targets, people get confused in terms of when is the infrastructure up and ready to go, when are we going live with it and starting migration. Migrating all the customers in the capital cities, the five capital cities where we are deploying over time, is no small task. It is similar to the billing transformation, customer records on IT. We have to migrate those customers off those legacy class 5 switches. The overall plan is on schedule. It may be just the way it is represented.

SOL TRUJILLO: To add to Greg's comments, and Hugh touched on it as well, the FTTN decision is enhanced by soft switching. The two of them are very synergistic. However, deploying these soft switches is not dependent on FTTN. I think there is a misunderstandings about that, so I just want to be clear because there are benefits about services and capabilities that we can deliver and, as Greg said, then it is just a matter of a conversion of somebody on an old switching platform on to the new soft switch. We will go back over here to the right.

DAVID LANGFORD (LEHMAN BROTHERS): First of all, a couple of the European incumbents have given indications to the market as to what kind of savings they can generate out of moving to an IP core network, and they are quite significant savings. Are you able to provide any specific details on what those savings might be for Telstra, firstly; and, secondly, I would expect that the Edge network technologies are also going to have an impact on those savings that can be generated, and the timing. Is there any way of accelerating any of those savings?

SOL TRUJILLO: Let me start, and then I will let Greg and the rest of the team answer it in more detail. When anybody talks about savings - pick the PTT around the world - you talk about it from two perspectives. One is existing operations and cost reduction that you can get out of that. The second component is anticipated demands of growth. One of the great lessons and learnings that every PTT around the world is finding out, that we are probably a little bit ahead of most, is the fact that as you deploy broadband and as you think about not only the bandwidth requirements but you think about the services that are

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delivered, there is a log linear kind of growth curve so when people talk about these big numbers, some of it is tied to how they are going to mitigate these increases in cost on a go-forward basis.

It is kind of like what I referred to earlier when I talked about when I first got here and we had our first report period. Our expense growth was double digits in this company and it was growing, so we had to kind of stop it first and then start cutting at it with some of the things that we have initiating.

I will turn it over to Greg to talk about some of the costs we have already been capturing with the deployment, because we have already turned up, and some of the future avoided costs that we are going to have given some of the capacity that we put in place.

GREG WINN: When you look at our revenue growth, and I make comments about the underlying factory costs in terms of recurring costs are reducing, we have these one-time costs as we are building and putting certain platforms in place, we have been able to absorb and an indication is that we are on a downward trajectory on our operating expense where we are having tremendous growth, and you will see from all our marketing partners and market people that we winning in the marketplace not just in terms of volume but in terms of complexity from a network standpoint and operating standpoint the kind of services we are delivering, we are delivering them at lower unit costs.

The volumes are going up, costs are coming down, so the margins improve. On the IP side of it, I gave some indicative elements and I didn't pick necessarily the best ones because we've got a lot of stuff that's commercial-in-confidence, but I think if you talk to some of our guests that are here today, Hilary from Alcatel Lucent, Bill and the crowd from Ericsson and some of our other partners, they will tell you that we're best in class, quite freely, and our costs platform is going the direction we said it would.

SOL TRUJILLO: To circle back then, our cost reductions are really reflected in our EBITDA margins we're talking about in this 2010 period. As far as what we've seen in benchmarking around the world, they will be at or near the .1/11/07

top of anybody there. We are just not giving and disclosing specific piece parts.

DAVID LANGFORD (LEHMAN BROTHERS): Just one other quick question, if I could, on IT. One of your small-cap competitors has had some IT difficulties in recent times. I think in terms of scale, the issues that Telstra are facing are far more significant in terms of transformation. Can you just give us a bit of colour on the specific processes and levels of competence that are required before you undertake cutovers between systems?

SOL TRUJILLO: Let me start because it's easier for me to talk about it than the gentlemen that are to my left here. The beginning point is you have to have competence and to my left sits a lot of competence and there's other people that are not here that are strategic partners in this process, one being Accenture and the other being IBM, that have been key in terms of a lot of the work that we're doing.

The decision we made at the very beginning was to bring in the best people and to bring in the best partners. When you do that and you bring in experienced people that have done some of this before, you avoid a lot of problems and your cycle time to get things decided and done is a lot different. I know that sounds a little bit funny and a little bit self-serving, but this was part of our strategy. Part of transformation is stocking this company with people that have done it before, along with people that haven't done it before and getting the big volumes and the big change done.

When you look at some of the announcements around the world about PTTs, they said they were going to do this and that and they're still rolling it out. We have already done it and it is because we have talent here, world-class talent, that knows how to do it and we've picked the partners that know how to help us get it done as well. I am being told I can only take one more question. I will take two. I will take Ian and then we'll come over here to Christian.

IAN MARTIN (ABN AMRO): Just on this question about whether a Docsis 3 upgrade to cable might be some alternative to FTTN, would you consider extending the .1/11/07

footprint? I think the footprint for cable is about 2.5 million households. Potentially, that leaves a lot of households at risk. Would you consider extending the footprint there? Surely that would change the economics relative to fibre. Would you consider extending the nodes closer to households, so that there's less sharing? If this is going to be the main Broadband access point to the household then presumably you'll need to do that. Again, that might change the economics relative to fibre and given that it is a largely shared network, is it a suitable platform for business use, particularly small business users that are perhaps out of the suburbs and might have revenue that depends on that Broadband and access platform?

SOL TRUJILLO: I am going to be very crisp and short. In terms of answering the first series of questions, the answer is yes. If it is not obvious to you today, what we do is we spend our time thinking about options because as the CEO of the company, I have to think about, "If this happens then what do we do?" "If that happens, what do we do?" And basically our job, my job, is to make sure that we have plenty of options for shareholders to get benefits however life evolves, marketplace changes, technology changes, regulatory changes, whatever they might be and that's what we've got in front of us.

We have plenty of options to grow this business going forward. That is a series of options that we have explored, we've looked at and if we need to go left, if we need to go right, if we need to go down the middle, we're ready to do it.

IAN MARTIN (ABN AMRO): That would be a suitable platform for business users in those footprint areas?

SOL TRUJILLO: In the case of the US, you can already see today if you travel over there and you look at the companies that have already migrated some of their customers on to this platform, business customers, they're now starting to move up the curve in terms of more advanced business services, not just the basic business services, but more advanced. The answer again, in short, is yes, given the investments that would be required on two things: one is this Docsis 3.0 and the second one is making it interactive; two-way.

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CHRISTIAN GUERRA (GSJBWERE): Sol, thank you again for making your team available for us. After a whole day today, we really appreciate that. My question is on your network payments. In the pack, you had a great chart looking at the data volumes on Next G compared to 2G and some of the other networks you've been running over the last few years. At about \$2 billion of your total cost base, it is a fairly chunky number. Could you tell us a little bit more what you're planning to try to reduce that cost as volumes continue rising? For example, you've talked about building the cable to Hawaii as being one way of reducing your international payments. I know it's about fifty-fifty domestic/international in terms of network payments.

Could you give us a bit more colour on a three to five-year view on how you're going to address that increase in cost.

GREG WINN: You've actually answered your own question, Christian. We're deploying additional capacity at much lower cost and capacity that we own that's going to lower our cost structure. Also, our strategic suppliers in the case of the undersea cables, Alcatel Lucent, their technology is moving very, very rapidly, so again, it is about the cost per bit of traffic that is carried. We are bearing the cost of the exponential capacity to handle the growth at a time now so we don't have to invest in it later.

I think on one of the charts you saw that with a doubling of capacity every two years, we have the capacity and the architecture in place to handle this all the way out to 2024 domestically on the networks. You can pretty much be assured that every element that we've looked at, including the international capacity, is looking around scaling at the same capabilities. To Sol's point, given a lot of uncertainty in this environment here, we look at lots of options and we have multiple options. No matter which way somebody else may move, we're going to move faster another way.

SOL TRUJILLO: On top of what Greg said, Christian, obviously, we have a whole series of initiatives. If you think about market share, market share is a big way to reduce network outpayments in terms of us carrying things
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on our network, et cetera, et cetera. There have been some regulatory changes on the mobile side in terms of the terminating pricing, but we're going to continue to stimulate a lot of on-net capabilities that will enable us to move that, in addition to infrastructure-wise as we think about reducing our costs.

There is a whole series of things. We won't get into the details of them because some of them are very competitively sensitive in terms of how we don't want to pre-signal to our competitors what we intend to do.

We are going to end this Q and A and again, we'll have more opportunities for more questions a little bit later. John and I will have a session regarding all the financial results after John makes his broader presentation. Thank you all.

APPLAUSE

SOL TRUJILLO: I now have the privilege of introducing Dr Paul Jacobs, but I think most of the time Paul prefers being called "Paul". I have known Paul for a long time in the sense that I first met him when there was this little company by the name of Qualcomm that was launching this capability called CDMA and they had the software, they had patents and they had a lot of capabilities. His father launched this business, but there was this young person in the company at the time, his name was Paul, who was working on handsets, working on services, working on a lot of capabilities that ultimately when you thought about the second generation of Qualcomm, it was how it would evolve and emerge. A couple of years back Paul became the CEO of the business and he has done a terrific job because one of the things that all companies need to continue to do is not just live off their legacy, but essentially evolve their business in new and different ways and to create growth and one of the things that Paul strongly believes in is the future of wireless and all the new capabilities and new services that can be enabled, including new platforms.

What I would like to do is ask all of you to help me welcome Dr Paul Jacobs.

APPLAUSE

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PAUL JACOBS: Thank you, Sol and thanks everybody. Good morning or "g'day". Am I supposed to say that to you? No? Yes? Anyway, I am really happy to be here and I appreciate the invitation to speak to you today. Like Sol said, we go back a long way and we share a very common vision for the future of wireless and I'm really happy to be able to talk to you about that evolution, where we are, where we're headed and I thought this slide would allow me to start by saying where we've been.

This was an industry that used to be very vertically oriented, meaning that there were a few large companies that essentially did everything, soup to nuts, and they controlled the pace of evolution, of innovation and now what we've gone to, much like what happened in the computing industry, is to a horizontally-segmented industry where different companies focus on what they do best.

The result of that is, as you see on the slide, more choice for consumers, more features, better services, lower costs, all of these good things that have come to pass as we've evolved to a different business model in the industry and towards better capabilities. The phone is not just for making voice calls any more. It is for a lot of other things and that's what I want to talk to you about today.

Let's start by putting this a little bit in context. There's somewhere between 6.5 and 7 billion people on the earth. About 3 billion of them have cell phones already. That's just a phenomenal number. As we drive the cost down, we're able to provide connectivity to many, many more people around the world. We know from studies that it's not just about providing voice connectivity, but it's about providing data connectivity when it comes to improving economic conditions for people around the world.

If you look at this chart, we have nearly half a billion subscribers already to third generation networks. These are the most cost effective ways to bridge the digital divide for the rest of the world. This continues to grow extremely rapidly as we see new subscribers come on, as we drive the costs down and as we see subscribers transition from second generation to third generation technologies.

What do we have to do with that? We spent a lot of
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time in the late '80s and the '90s developing CDMA technology which is underneath both the CDMA2000 and WCDMA flavours of 3G and we've been really focused on driving technology forward through both of these paths.

We are also I think acknowledged in the industry as a leader in developing the modems, the part that does the radio communications, but as Sol said, one of the things I focused on in the company was not just the radio and how to make it better or a better bit pipe, but what the applications of that were; so the company has changed over time. We have become much more focused on the integration of multi-media capabilities, 3D capabilities, position, location, all these different types of things that have gone into a phone.

We now have a great number of customers that are working with us. We don't sell directly. We work hand in hand. Our business model is aligned with the operator's business model, but we work with the handset manufacturers and get them to put these new technologies into their devices and bring out these new compelling handsets, the kinds of things that Sol was showing you when he talked earlier.

We do that by having a wide range of chip sets, very high-end. There is QSB at the top that I'm going to talk to you about in a second, a very powerful microprocessor. The 7000 series, the next one down, we're bringing in high level operating systems, the Windows Mobile and Linex, but we're going to bring those out at mainstream prices so that more people have access to that kind of capability.

The 6000 series, as we go down, that's really our bread and butter mainstream for most people to have a feature phone and as we go down to the single chip, that's where we spend a lot of effort trying to drive the cost out of these advanced technologies so that we can go bring that to the next billion or two billion people in the world that need to have connectivity for both voice and data.

We have had a fairly long history of doing this. In December 2004, we actually launched our first high-speed download packet access chip sets, so really mobile Broadband capability way back then. As you see, we've partnered closely with Telstra to drive a lot of these new

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technologies into the market, much as we've done throughout our careers when we've worked together.

We launched HSPA and fairly quickly after that we launched HSUPA with Telstra, the upstream, where it gives you better capabilities to get data from the device to the network. Why is that important? Everybody knows about user-generated content. We have video cameras and still cameras on these phones and people want to share with their friends that picture or that video they have just taken. Uplink speed has become more and more important and also latency, improving the latency, so that when you press something that web page comes up or that video comes up. You don't want to wait when you have something in the palm of your hand.

At the end of this year we're bringing out this next generation of technology, HSPA+, and if we look at how these chip sets have gone, how they have evolved, you can see when we started out we really didn't have a great data story on the WCDMA side, 384Kbps, but as we focused on bringing new innovations into this, focusing on packet communications, combined with the circuit switch that you traditionally used for voice capabilities, we integrated Internet protocols into these devices and then we focused on having bigger bit pipes, lower latency, higher efficiency that drives the cost per bit down and that's really a key metric that we're focussed on. How do we get more and more bits to the end user of these devices at lower and lower costs?

You can see as we go out, we have this 8000 series chip set which we will be sampling at the end of this year which has 28.8Mbps and we're using these more advanced technologies, more advanced signal processing technologies, because the cost of computation in the chip has come down very dramatically. We have used advanced antenna technologies as well. Most of the phones you see actually have two receive antennas in them already. You just don't notice it because they've been integrated inside the package now. As we look out further to get even faster data rates down to devices for web access and for some of those really interesting applications that you saw earlier, we're up to 40Mbps and beyond. The data rates, the bit pipe keeps getting fatter and fatter and the applications obviously continue to drive those things.

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This has led us to a real convergence between the computing industry and the communications industry. We started out talking about making voice calls. Then we started talking about text messages, things like that, but as time has gone on and we've gotten a bigger and bigger pipe, now what we have is the ability to do all those things that are able to be done on the internet; all of this Web 2.0 type of stuff, the video capabilities that you're seeing.

Social networking is going to be an incredibly important part because it's going to allow you to choose who it is that you expose some very interesting details about yourself. Maybe you're willing to tell the whole world your opinions, but your financial details or your health information, you're going to want to restrict those kinds of things; the location of your children; you probably only want a few people to know those things. These are extensions of concepts that have come out of the internet and they're going to be embedded into wireless and we're going to enhance them through the use of the wireless internet.

We see this convergence towards very much the same things on the computing side of the world and on the wireless side of the world and what that's bringing is mobile entertainment, mobile internet, mobile Broadband and a lot of innovation in terms of devices and services and a really great mix of a lot of different companies coming together bringing their part to the bringing the best new services to consumers around the world.

Part of the reason why this is able to happen is not just these band widths that we're able to get to the palm of your hand, but also the kind of computing power that we're able to put in your pocket. If we look back to the first phones that we ever did in 1996, we had 10 million instructions per second.

We have the chip coming out - the snapdragon chip I talked about. That thing does 2.4 billion instructions per second and it does it at a power consumption that is about 1/10th to 1/20th of the similar kind of processor that is running your laptop today, so you will have the power of a laptop processor with the power consumption of a .1/11/07

cell phone. You can just imagine what that will do to transform the types of things that you can do on a handset.

We heard people talk about augmented reality on the fixed network. Imagine that in your hand as you are able to walk around.

So what has happened with the cell phone? We have put a lot of consumer electronic-type functionality around this core of connectivity, and the connectivity is not just about wide area wireless, but it's all different kinds of connectivity. In fact, I think that's what the next generation is really going to be about - choosing the right network, the right radio link for the right application. So we have not just WAN technology, wide area networks, cellular networks, but we also have local area technologies, WiFis getting built into phones increasingly, Blue Tooth to talk to your headsets, ultra wide band where you can connect your phone on an ad hoc basis to a screen that is available so you don't just have to be looking at the small screen; you actually project this incredible computing power and entertainment experience onto a much bigger screen.

We are putting all kinds of other technologies in there as well. I talked about GPS, near-field communications and I will talk a bit more about that, broadcast radio - all these things, and then around that we are putting all the consumer electronics functions, so all the different audio and video codex, graphics accelerators to give you the capability somewhere between Playstation 1 and Playstation 2 in the palm of your hand with the power consumption that you expect from a mobile device.

So what we see today is that a lot of consumer electronics functionality is coming in as features of the phone, but with the amount of R&D and the size of the market we're also seeing that now the phone is going to be a part of all these consumer electronics devices, so your personal navigation system will be networked, it will get up-to-date information on traffic, on points of interest, when they change the roads it will get reflected there, your gaming machine - you will be able to do multi-player gaming; your media player will get real-time information down to it; your computing will be always connected to the network with a very high-speed connection.

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All these things are happening, and some of them will have voice and some of them won't. Some of them will be mostly data focused and I think consumers will actually choose different devices for different applications and these things will become increasingly more specialised as well as people having a general-purpose device.

So one of the radio links that we have recently focused on is for mobile TV and we launched a service called media flo in the United States with Verizon Wireless. It is more a broadcast technology. That is the tower in Las Vegas and it is like a TV broadcast. We transmit 50KW, low-power TV-type power coming out of these transmitters, only a few of them in any given city. We built a network operating centre in San Diego and these transmitters are standard off the shelf, digital terrestrial TV transmitters with a slight change to how the signal is generated, which meant we were able to build a state-of-the-art NOC using all off-the-shelf kind of thing and when broadcasters come to look at it they say, "Boy, this actually looks nicer than the one that I have that is running some major network for traditional media."

We went out and we knew that content was critically important, so we got some of the biggest names in content to actually build specialised content and content where there are programs that are simulcast. The reason why we have them slightly changing the way they do their content is because a mobile phone is not like the TV you have at home. The mobile phone - you actually are willing to watch more throughout the day. There are slight peaks in usage during the commute times, a slight dip in usage during the traditional prime-time hours, but generally you're watching it all across the day. So we simulcast during prime time and we time share out of prime time.

We have the device manufacturers trying to build new innovative designs for mobile TV, so you see this one with the screen that rotates - that's an LG phone. You see the touch screen type device, so we have touch TV coming out. And then Motorola and Samsung are also building devices for this. So it's really interesting to get the device manufacturers into the idea of how do you make a great mobile TV experience for the end-user?

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We are doing this not just in the United States; we're going around the world so in the UK we've done trials with BSkyB. In Japan, we are doing trials, in Taiwan, Hong Kong and Malaysia. So this really is a thing that's going around the world.

But we also recognise that we are not going to be the only ones who make a mobile TV technology and there are other technologies out there in the world, and as a chip manufacturer, it is our goal to support what the operators want, not to cram technologies down their throat. So we have built a chip that makes it just irrelevant to the handset manufacturer, the consumer carrying the device, if it's one of the main standards for mobile TV, we have a chip that does it and it's a single chip does multiple radio technologies. So we are trying to get out of these holy wars of technology and into just taking Moore's law, allowing us to put more capabilities into a chip and then making that as transparent as possible to the end-user.

Some of the things that we can do besides video and audio down to the phone is data casting, so we do things like information on stocks or sports, but one of the interesting things we can do is actually drive the home screen of the phone so that information is zero clicks away, and that's something that we will be launching soon. But even before doing that over a broadcast network, we have actually done it over the cellular networks as well and we're working with Telstra on a technology called uiOne which allows you to modify the user interface after the phone has been out in the field, to customise it, so that as new services are launched, as we are able to experiment, much as they did on the Web to make things more useable for subscribers, we will be able to do that on the phone. We will be able to set up things, change themes, people will be able to personalise the device to an even greater extent.

There are a number of other operators around the world that are using this technology, because what's fundamental is the operator wants to be able to differentiate, they want to bring new services, but as we get this proliferation of services we need to focus on making it very easy for the consumer to have access to those technologies, or they're never going to use them at all. It will be something we stick in the phone and it's just .1/11/07

wasted.

So we are really focused on how do we improve time to market and provide differentiation for the operator and we're very, very happy to be working with Telstra on this technology.

Another technology that is extremely exciting is GPS. We have built GPS into the phones so there are 300 million phones out there that we have shipped with GPS capabilities in them. You can see the revenue ramps people are talking about for GPS and location-based services and there are all sorts of technologies and services that you can build around these things. So obviously navigation is one, figuring out where I am, how do I get from here to there. What the Japanese have done which is very interesting is used the high bandwidth capabilities and the graphics capability of the phone and done a 3D navigation system where, as you drive or walk down the road, you see the buildings that are around you.

We are also taking the signal chip, low-cost, small-size, low power consumption and building it into things like key chains so you won't lose your keys anymore. That would be kind of a novel service I think. You can use that for tracking children, pets, senior citizens, things like that.

I think there are a lot of opportunities in this space. One that I thought was kind of interesting because I like exercising is one where you take the phone with you, it has GPS built into it, and it keeps track as you go for your run, and it also uses that notion of the internet community, where it now allows you to send that information out to your friends, so you can have little competitions with them and just create that same kind of community but it's all automatically happening just because you're carrying that device around with you.

That brings me to the whole health care space. Health care is going to be the next industry that is really going to be transformed by wireless. We have a fundamental problem with the developed world: populations are aging, the doctors are aging with them and right as the population needs the most health care, the doctors are going to be retiring. So we have a crisis on our hands and the way

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that we will resolve that is by improving the productivity of the doctors or by improving wellness of people. And wireless can do both of those.

We are already running a system, we have been running it for a few years, called Cardionet, where there are cardiac sensors connected to a wireless PDA connected to a monitoring centre. They have done clinical studies. It is three times more efficient at finding cardiac problems than the standard way, which is putting the patient in the intensive care unit and monitoring them. Why is that? Because the person is walking around, they're actually exercising their heart, they're in their normal situation. This is something where we improve productivity and we lower cost.

These kinds of ideas of having different sensors stuck on to your body with a special radio link, very low power high reliability radio link between sensors and the device that you carry around - this is going to allow people with chronic conditions to be monitored. There is already diabetes phones out where people who have diabetes can test their blood, stick it in the phone, the test results can be communicated whether it's to a monitoring centre or to the parent of a diabetic child who wants to make sure that that kid has actually done their test and they're within range.

So a lot of innovation is going on in this area. It's a very early stage in health care, but I think it will be a very exciting opportunity for us.

With that, I think another piece which is very important is that the phone is this very personal device, but the device is known to the network; you need to be known to the network. If things as personal as your health information are going to be on there, the phone is going to have biometric capability on it, whether it's fingerprint sensors or these other types of sensors that will keep track, and then you will be authenticated to the network so that it's you who has access to that private information and are able to decide who also gets access to that.

So I think there are a lot of exciting opportunities with biometrics. We are putting a lot of effort into that as well. The key there is low cost. We have to drive the costs down so that we can then get it out into a broad
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enough range of devices that the carriers can make new revenue streams off.

Then I think when we talk about revenue, clearly - and you've heard some of this already, about how we will transform the payments industry and this whole notion of near-field communications - it has already started, but what I think is interesting is the kinds of synergies that you can get through wireless, so this is a device that you will carry with you. Now that device will be like a credit card, but if it's a credit card that has broadcast multi media coming to it. It's a credit card you can advertise to. So now imagine that I see an advertisement, I get a coupon with it, I actually go into the store, make the transaction, the coupon gets credited to my account, and now all of a sudden I have closed the transaction loop from advertisement to transaction. It's not just click-throughs, it's actually two transactions. That will generate a lot more value for the entire value chain. That value will get spread throughout the value chain, creating more revenues, more profits, for everybody in the industry.

So really exciting students, not just the standard things you think about, but the synergies between all these different capabilities that are going into the phone.

So just to close, the phone really is becoming a lifestyle device. It's something that you carry with you. It is your connection into that digital domain where your entertainment resides, where your contacts reside, where your digital persona resides. And all this capability is coming into the device because we're investing very heavily in the industry on fundamental enabling technologies, whether it's higher bandwidth like the Next G network, or on consumer electronics capabilities that are going into the devices, or some of these more future things.

But I think as you see this evolution, there really are tremendous opportunities for the wireless industry ahead and working with partners like Telstra we are going to be the first to bring those to consumers. So thanks, everybody, for being here. I appreciate the opportunity to address you today.

SOL TRUJILLO: All right, Paul, thank you very much. Hopefully you got the sense about Paul. Paul, please stay
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up. If you have a few more minutes, we will take a few questions here. But I want to draw an observation: Qualcomm has been on the move, they've been a great partner for us, because we have been pushing the envelope. As Paul said on the 3.6, 7.2, 14.4, 28 to 40 to 1 gigabit, we're on that path and obviously Qualcomm is a critical player as we see it, as they partner with the ZTEs, the Samsungs, all the players that have also become part of the equation here.

Paul, I want to start with a question and then I'll open it up to others. I noticed on your series of charts about all the various platforms you didn't have anything up there regarding WiMAX. Is there a reason?

PAUL JACOBS: Are you baiting me?

SOL TRUJILLO: The reason I ask is that Paul and I spoke at the same Fortune conference a few months ago and he was asked a question about WiMAX, not by me, but by someone else there, who was an investor who was looking to either validate or maybe invalidate some of his thinking. Do you want to comment on what your views are about WiMAX?

PAUL JACOBS: Obviously WiMAX is a technology that has a great deal of attention, a great deal of hype, but people are making claims about it that don't actually hold up in practice. One of the things that we would love to see is for people, after all this time, to come to the market with real metrics on the technology. This was a technology that originally was designed for fixed capabilities, and because of that there were a lot of trade-offs made.

So the early generations of WiMAX, the 16D and 16E variants of it, don't actually handle things like real streaming services, they don't handle voice over IP well. It takes a tremendous amount of overhead to get those kinds of services to work.

So if there are carriers who come to us and say, "We want these technologies to be deployed", like I said earlier, we don't cram technologies down operators' throats, but there are fundamentally better choices out there. The 3G technologies, as they evolve, have the scale, the maturity and they are going to provide those kinds of data rates at very low costs because we have

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driven down the cost curve already.

Then the next generation technologies use these wider bandwidths to provide people more and more bandwidth to a device. There are better technologies already out there, that are at least a couple of years ahead of where WiMAX needs to go in order to provide real mobility services and real streaming services on it.

I would encourage any of you who haven't done this, if you would like to see how a WiMAX system works in real life, feel free to travel to South Korea, because that is a system that has been out for quite some time already. It has not been commercially successful, because they need to go to the next generation of technology, they need to incorporate the kinds of capabilities that we have in the cellular network for hand-off and latency and streaming services and voice over IP and all these other kinds of technologies.

They will tell you that WiMAX was built from the ground up as an internet or an IP-based system, that it's a packet-based system. All these 3G technologies are packet-based systems, and we put the internet protocols into these technologies back in the early 1990s before people were even really talking about the World Wide Web.

So fundamentally at their work, all these technologies are IP based and you hear about the IP core network that Telstra is putting in, and as we go forward, more and more of the devices will run with voice over IP as well, so it will be IP end to end.

So I think that you will find that the 3G networks and these evolutions of the 3G networks will be the best, most cost-effective, highest performance way to provide wireless broadband to the world.

MR TRUJILLO: I am going to open it up for a couple of questions, so we will start over here.

RICHARD EARY (UBS): If you can talk about femto cells within the wireless environment, I think there are a few carriers now trying to look at how they break into the home environment, and whether femto cells will get a bit more boost within that environment, so if you can talk more
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about that and your experience and what you are doing at Qualcomm.

The second point was on mobile advertising. You talked about that. I think with the industry at large, most people are getting a bit more excited, but on a realistic view in terms of contribution to ARPU's, how far down the curve are we when we can actually expect to see those numbers?

DR PAUL JACOBS: So femto cells are very interesting because people see this deployment scenario of a WiFi access point and say how can I get that kind of inexpensive wireless coverage but also how a managed network, like a cellular network, to use my standard device and go in and out of coverage of the femto cell.

We actually worked on this technology. I think it was four years ago we brought out a product call I-WAN, which was a complete IP-based cell that looked about the size of a laptop. We actually transferred it, because we don't build infrastructure ourselves, to one of the Asian manufacturers who has been selling it since.

I think that as time has gone on we are taking advantage of Moore's Law to reduce the cost and size even further of the technologies that go into the base station. The biggest issue you have to deal with is interference management. Essentially what I believe is going to happen as time goes on in areas where we are working are how do you actually build a deployment scenario for a femto cell within a macro cell deployment but have those two things actually interoperate completely, so the femto cells are actually managed - unlike with what happens with the WiFi. Wifi isn't managed one to the other. When you put one in your house and your neighbour puts one in their house, these things are not coordinating with each other, but a cellular network does coordinate.

That's where I think the next big bandwidth coverage and improvement is going to come from, because we are either going to go to broader bandwidths to get higher speeds from the device, or we are going to get the device closer to between the access point and the terminal. To do that cost effectively you are going to need to go to some kind of a femto cell. That is one of the areas we are

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driving on.

RICHARD EARY (UBS): If I can follow up on that. In terms of obviously routine cause over a femto cell in a home environment to obviously reduce the price of wireless, to trigger that substitution effect, how much cost reduction are you looking at from routing those calls to make that a viability or a viable proposition?

DR PAUL JACOBS: The goals we have are to get the access point down in the range of WiFi access point, so you are not going to have to make a choice. It is really a question of interference management between the macro cell and the femto cell network.

SOL TRUJILLO: We heard in the mobile advertising becoming let's call it material in terms of ARPU affectation. My bet is that we are still at least a couple of years away from it being material. As you heard me say earlier, we are starting essentially a trial or an initial deployment with four or five partners already, but now we have a platform and now we are going to be testing different concepts, probably over the next 12 months, and then we will be deciding on how we can roll out very quickly.

You are going to see a presentation, however, from David Moffatt a little bit later that he is going to cover some other ways that we are going to start accelerating and perhaps monetising sooner this whole notion of couponing and reaching customers and enabling them to do what they want to do when they want to do it. I would say from a material standpoint in affecting ARPU, it is probably two years before we see sizeable change.

RICHARD EARY (UBS): To follow up, in terms of revenue numbers, in terms of the block charts, you have to 1.1 to 1.4 billion growth on mobile. So only a small portion of that or not really would come from mobile advertising; would that be correct?

SOL TRUJILLO: I would say that would be icing on the cake as opposed to part of the cake right now. We will take one more question for Paul. I don't see anybody standing up. Paul, I really do want to thank you for travelling all the way here. We have appreciated the relationship and obviously Paul is going to be with us a little bit later
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today as we unveil our new Telstra Experience Centre and you are going to see how we are looking to enable more of this testing of concepts because there are many out there, but we are going to look at finding ways to bring them real with real partners and real customers and accelerating that movement. Qualcomm has been terrific as a partner, and thank you very much.

DR PAUL JACOBS: Thank you for the partnership and for inviting me, and thanks, everybody.

BEN SPINCER: I want to thank you Paul as well. We are going to break for lunch now. We have about 45 minutes. During that period the afternoon slides will be lodged with the ASX. We will make an announcement here when that lodgement is complete so that you can pick up copies from the registration desk.

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